FINANCIAL TIMES

World Business Newspaper

MONDAY FEBRUARY 5 1996

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Kohl reveals plan for G7 expansion to admit Russia

Germany and France are seeking Russia's full admission to the Group of 7, the forum of the world's richest industrial nations, as part of a strategy to strengthen Boris Yeltsin's position ahead of this summer's presidential elections. Germany's Chancellor Helmut Kohl said the French government was working on a plan that would give Mr Yeltsin equal status with the leaders of the US, Japan, Germany, France, Britain, Italy and Canada at this year's summit in Lyons in July. Page 14; US, Russia differ on Nato, Page 2; Editorial Comment, Page 13

UK banks make provision for their Eurotunnel debt

UK banks involved with Eurotunnel are this month expected to provide for up to 50 per cent of their share of the company's £8bn ($12.3bn) debt. The four main UK banks could make total provisions of more than £300m on their exposure to Eurotunnel, the Anglo-French operator of the Channel tunnel, when they report full-year results. Page 15

EU pushed on economic growth: The US has urged European Union governments to promote faster economic growth to support the reductions in their budget deficits needed under plans for a single European currency. Page 2

Mitchell warns of IRA 'threat': Members of the Irish Republican Army might return to terrorism if they were not drawn into the democratic process, warned former US Senator George Mitchell, head of the international body on the decommissioning of arms in Northern Ireland. Page 5

Quake toll expected to rise: Officials China said the toll from an earthquake in the Lijiang region of China, 2,000km (1,300 miles) south-west of Beijing, late on Saturday was expected to pass 300 as rescuers reached remote villages. Page 4

Itochu, one of Japan's biggest trading companies, plans to move into the British steel industry by setting up a distribution centre in the west Midlands to supply the motor industry. The investment is likely to be less than £2m ($3.02m). Page 5

MTV Europe, the music television channel, has reached agreement with BMG, one of the world's largest record companies, on how much it will pay for its music videos. Page 15

Japan braced for US pressure: Japanese trade negotiators are bracing themselves for increasing pressure from the US in the next few weeks over access to the Japanese market. Page 2

Airline fear over free trade: The airline industry risks being excluded from the world move towards free trade, Singapore Airlines managing director Cheong Choong Kong said. Page 4

S Korea in $5bn investment: South Korea's third-largest industrial conglomerate, the LG Group, plans to invest $5bn (£3.2bn) in south-east Asia and India by 2000, chairman Koo Bon-moo said. Page 4

Vebacom, the telecommunications division of German industrial conglomerate Veba, is poised to take a 23.9 per cent stake in a consortium set up to develop a decoding box for the launch of German digital television later this year. Page 17

Russians win Ukraine nuclear deal: Russian nuclear energy concern TVEL has beaten western competitors to win a Ukrainian government tender to build a nuclear fuel plant. Page 2

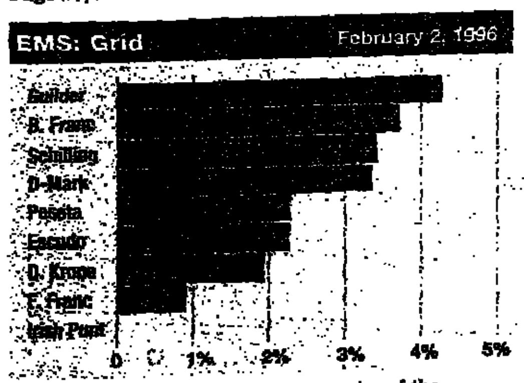
Bahrain police arrest 41: Authorities in Bahrain detained 41 more people on charges of rioting, arson, and sabotage, intensifying a crackdown on unrest which has plagued the Gulf island state for the past 15 months. Page 4

China trade to exceed $400bn: China's foreign trade is expected to grow by 12 per cent annually over the next five years and exceed $400bn by 2000, according to its Customs Administration. Page 3

Freeze hits Florida: Arctic weather spread to traditionally warmer areas of the US. Sub-zero temperatures in the south threatened citrus crops in Florida, where forecasters said temperatures were expected to drop to 25°F to 30°F (-4°C to -1°C) overnight.

European Monetary System: The peseta slipped below the schilling and the D-Mark, and the Danish krone fell below the escudo last week in the EMS grid. The spread between the strongest and weakest currencies was almost unchanged in a week which saw the Bundesbank council fix the repo rate for two weeks at 3.3 per cent. Currencies, Page 23; Market watches German data, Page 19

EMS: Grid February 2, 1996



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the system. Most of the currencies can fluctuate within 15 per cent of agreed central rates against the other members of the mechanism. The exceptions are the D-Mark and the guilder which move in a narrow 2.25 per cent band.

Russia 'faces a spending spree'

Sacked minister says pre-election shift in economic policy might endanger IMF loan

By Chrystia Freeland in Moscow

Mr Anatoly Chubais, the prominent reformer who was sacked from the Russian cabinet last month, has warned that the Kremlin could be on the verge of a populist spending spree with the potential to shatter the country's fragile market economy.

In his first detailed public statement since his dismissal, Mr Chubais writes in the Financial Times today there is a danger the government could dramatically boost spending ahead of June's presidential elections.

The disastrous consequences of such a shift, he warns, could include a collapse in the banking system, a crisis in the financial markets and a breakdown in talks between Russia and the International Monetary Fund over a three-year $9bn loan.

His comments highlight the struggle within President Boris Yeltsin's entourage over the future of the economy. A conservative faction in the Kremlin is lobbying for a departure from last year's austere fiscal and monetary policies in an effort to win votes ahead of the presidential elections.

Mr Chubais, whose sacking as first deputy prime minister was a significant victory for the hardliners, says Mr Yeltsin's economic choice is likely to be made soon, and he warns that it is a decision which could prove "fatal" for the president himself.

"If it [the change in economic policy] happens, it will become clear that my departure from the government last month was more than a change in the membership of the political élite; it would be a change in economic policy capable of inflicting a fatal blow to those who initiated economic reform in our country."

His comments were echoed by Mr Yevgeny Yasin, the minister of the economy who is one of the few radical reformers left in the government. In an interview published today in Russia, Mr Yasin says Mr Yeltsin might be tempted to mimic the high-spending policies of the communists, but cautions that such a choice would "bankrupt" Russia.

Mr Chubais, the architect of Russia's privatisation programme, also holds out the hope that, if the government sticks to the tough economic course set last year, the Russian economy could achieve lasting financial stabilisation.

However, since Mr Chubais's dismissal, the Kremlin has made a series of costly promises which lend credence to the high-spending scenario he describes.

Over the weekend, Mr Victor Chernomyrdin, prime minister, approved a Rb10,400bn ($2.2bn) financing package for the coal industry in a successful bid to end a nationwide miners' strike. The handout follows a flood of spending promises by Mr Yeltsin last month, which, if fully implemented, would cost $12bn.

These pledges are an effort to buy back the support of voters whose anger with what Mr Chubais calls the "acute social and economic strains" of financial stabilisation produced gains for the communists in last December's parliamentary elections.

But even as the Kremlin seeks to appease voters' demands for more state spending, it is also eager to conclude talks for a new loan with the IMF and reach a deal to restructure Russia's remaining foreign debt with the Paris Club of creditors.

Mr Chernomyrdin confirmed at the weekend that Mr Michel Camdessus, IMF director, is due to travel to Moscow later this month in a visit which the Russian government hopes will produce a final accord with the fund.

The lesson of Russia's current dilemma, Mr Chubais says, is that financial stabilisation and democratic politics do not mix.

Red barons try to roll back privatisation, Page 2
Spending could deal fatal blow to reformers, Page 12

Reaching out to young America: Republican presidential candidate Steve Forbes moves to shake a child's hand at a Dunkin' Donuts outlet in Manchester, New Hampshire. Some recent polls in New Hampshire have put Mr Forbes ahead of US Senator Bob Dole in the race for the Republican presidential nomination. Republicans retreat from their revolution, Page 4; Editorial Comment, Page 13 *Picture: Reuter*

UK to urge freer trade between Europe and US

By Bruce Clark, Diplomatic Correspondent, in London

Mr Malcolm Rifkind, the UK foreign secretary, will call tomorrow for a fresh drive to liberalise trade between the European Union and North America, and hail Britain's role as the nation "forcing the pace" on this issue within the EU.

In his second important speech on transatlantic relations since taking office last summer, he will maintain political and defence ties between the EU and North America can best be cemented by focusing on projects offering economic benefits to both sides.

Domestically, Mr Rifkind's emphasis on EU-North American relations has provided a neat way of appealing to Euro-enthusiasts who want Britain at the heart of the debate in Brussels, and Eurosceptics who want to stress the UK's overseas connections.

But UK officials say his message also reflects a keenly felt concern that an introverted, squabbling Europe and an isolationist US Congress could move further and further apart.

With greater frankness than before, Mr Rifkind will acknowledge that transatlantic disagreements over Bosnia in 1993 and 1994 threatened at times to create a "real rift" in relations.

Echoing the words of President Bill Clinton's administration, he will tell the Transatlantic Policy Network, a discussion forum, that "we must apply the transatlantic partnership to furthering our prosperity just as we do for security".

He will note pointedly that Britain "aided by Germany" played the key role in launching a high-level study of EU-US trade relations at last December's Madrid summit. The study was approved in the teeth of serious reservations from France.

Mr Rifkind will also counter the argument that trans-Pacific trade has become the world's most important economic relationship by suggesting that a more open transatlantic regime could blaze a trail for the liberalisation of global trade.

With mutual investments of $500bn, and a combined total of

Continued on Page 14
EU growth call, Page 2

Beijing tightens rules on access to Internet

By Tony Walker in Beijing

The Chinese government yesterday announced rules intended to increase its control over cyberspace by forcing computer networks to use approved links and forbidding the spread of information that would "hinder public order".

The official Xinhua news agency said the new Internet regulations, which required existing computer networks to "liquidate" and "re-register", were aimed at "improving the management" of international computer networks.

The rules strengthen the hand of the Ministry of Posts and Telecommunications over the Internet – the global computer network – and other accessible networks, as all will have to be registered with the ministry.

Chinese computer information networks seeking links with other networks abroad will be required to use international channels provided by the MPT. All existing networks will be subject to management by that ministry, as well as by other bodies, including the ministry of the electronics industry.

This is the second time in less than a month China has sought to tighten controls over the flow of information. State council, the Chinese cabinet, issued an edict last month giving Xinhua exclusive rights to regulate distribution of economic information by foreign news agencies.

The new Internet rules specify that organisations or individuals planning to link up must have "legal person status" and "perfect" security control systems. This appears to be an attempt to narrow the criteria for access to interactive networks.

The new rules coincide with the temporary suspension of new subscriptions to Chinanet, the local gateway to the Internet. There had been heavy demand from individuals for Chinanet subscriptions.

These regulations also come amid signs of a chillier political wind in China. Senior officials have been stressing the need to uphold communist orthodoxy,

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German state premiers vow to oppose 'solidarity' tax cut

By Wolfgang Münchau in Frankfurt

German state premiers have vowed to resist plans by the Bonn government to cut the "solidarity" surcharge tax, reopening old wounds over the way Germany finances investments in the east.

In a rare show of unity, Christian Democrat (CDU) and Social Democrat (SPD) premiers from Germany's 16 states unanimously condemned plans by the centre-right coalition to cut the "solidarity" tax by 2 percentage points to 5.5 per cent from July next year.

The tax – a surcharge on taxed income which contributes to the costs of reconstruction in eastern Germany – is one of the most unpopular taxes ever levied in Germany. According to an opinion poll for NTV, the German news channel, 61 per cent of Germans favour it being cut.

The approval of the premiers is needed for the measure to pass, and their stance, taken at a specially convened conference near Frankfurt at the weekend, has touched a raw nerve in Chancellor Helmut Kohl's CDU/CSU government.

It recently dropped its opposition to an early tax cut as a concession to the Free Democrats (FDP), the junior coalition partner, which has been trying to raise its waning profile by campaigning against the surcharge.

The reversal in the CDU's position is widely interpreted as an attempt to provide the FDP with a badly needed political success ahead of three state elections next month. These polls are seen as crucial for the party's survival after it had failed to achieve the 5 per cent minimum necessary to gain parliamentary representation in a series of state elections.

The part of the proposal that appeared to enrage the premiers the most was the provision that they would pay for most of the tax cut. Some have also argued that the time is not yet right to scale back the extent of transfer payments to the east.

Mr Kurt Biedenkopf, CDU premier of Saxony, said the reconstruction effort "does not deserve to be treated as an election campaign manoeuvre".

He said: "The manner in which this whole issue has been debated leaves many people in the east with the impression that we are not only discussing a cut in the solidarity tax, but a cut in solidarity." Ms Heide Simonis, SPD premier of Schleswig-Holstein, who holds the rotating presidency of the premiers' conference, said: "I work on the presumption that this tax is needed in the east. We have to be careful in the west not to indulge in a policy of envy."

The strong opposition from the states is based largely on the way the Bonn government proposed to finance the tax cut, which it is estimated will lead to a DM4bn ($2.7bn) revenue shortfall in the second part of 1997. Under the coalition's plan, the states would fund three quarters of the costs through reductions in their share of value-added receipts.

Mr Gerhard Schröder, SPD premier of Lower Saxony, called the tax cut proposal a "classical contract at the expense of a third party".

However, the premiers' united opposition does not suggest that they will necessarily veto the proposal. Relations between central and state government have traditionally been complex, with trade-offs and counter-deals being common practice.

Albania	L£6.220	Germany	DM4.00	Lithuania	Lit 15.00	Qatar	QR13.00
Austria	Sch37	Greece	Dr400	Lux	LFr75	S.Arabia	SR12
Bahrain	Din1.250	Hong Kong	HK$20	Malta	Lm0.65	Singapore	S$4.30
Belgium	BFr75	Hungary	Ft230	Morocco	MDH16	Slovak Rp	Sk65
Bulgaria	Lev120.00	Iceland	IKr230	Neth	Fl 4.75	S. Africa	R12.00
Cyprus	C£1.20	India	Rs75	Nigeria	Naira60	Spain	Pta250
Czech Rp	Kc60	Israel	Shk7.50	Norway	NKr20.00	Sweden	SKr20
Denmark	DKr16	Italy	L3200	Oman	OR1.50	Switz	SFr3.70
Egypt	E£5.00	Japan	Y500	Pakistan	Rs40	Syria	S£85.00
Estonia	EKr 22	Jordan	JD1.50	Poland	Zl 5.50	Tunisia	Din1.750
Finland	FM15.00	Kuwait	Fils600	Portugal (mainland)		Turkey	L70,000
France	FFr11.50	Lebanon	LL3,000		Esc240	UAE	Dh12.00

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NEWS: EUROPE

Washington urges EU to promote growth

By Guy de Jonquières in Davos

The US has urged European Union governments to take measures to promote faster economic growth to support the reductions in their budget deficits needed in preparation for a single European currency.

The US demand was made by Mr Lawrence Summers, deputy treasury secretary, at a private meeting in Davos attended by ministers and central bankers from several European countries and by members of the European Commission.

Mr Summers endorsed the general objective of reducing budget deficits which, he said, need not impair economic performance. However he argued that to ensure continued growth, EU governments needed to act more aggressively to liberalise their economies and reform their labour and product markets.

He and other US officials have been particularly critical of Europe's high unemployment levels, which they have blamed largely on rigid, over-regulated labour markets. Mr Summers pointed out that the US had in the past three years accounted for all the jobs created in the G7 countries.

His remarks are said to have been brushed aside by many of the European participants at the meeting. France, Germany and Belgium insisted achievement of economic and monetary union would be enough to produce a sustained improvement in Europe's economic performance.

Mr Jean-Claude Trichet, governor of the Banque de France, is said to have emphasised the point particularly strongly. Chairing a private debate between ministers and officials on the risks of Emu, he surprised some participants by insisting that they first discuss at length the benefits of a move to a single currency.

However, Mr Vaclav Klaus, prime minister of the Czech Republic, strongly criticised enthusiasts of Emu for failing to provide for adequate resource transfers from rich EU members to poorer ones. He questioned whether a single currency could succeed unless it was accompanied by substantial transfers.

Mr Jean-Luc Dehaene, Belgium's prime minister, warned at the weekend the future of EU integration would be endangered if Emu did not proceed as planned. The EU risked losing international influence and being reduced to little more than a free trade area, while its single market would disintegrate.

However, Dr Mario Monti, the single market commissioner, dissented from Mr Dehaene's gloomy warnings. Dr Monti insisted during the private ministerial meeting that the single market could survive without a single currency, and said the EU would not automatically be thrown into reverse if Emu failed to go ahead.

Sir Leon Brittan, trade commissioner, conceded that the creation of the single market was not irreversible, but said: "The commitment to a single market is separate from that to a single currency."

He also said that EU members which did not participate in a single currency would remain fully entitled to share in the benefits of a single market.

EUROPEAN NEWS DIGEST

Economy fears on Bosnia peace

Western defence officials and politicians are expressing growing concern that peace efforts in Bosnia could be scuppered by the slow implementation of economic reconstruction in the country.

At the weekend "Wehrkunde" conference in Munich, Mr Javier Solana, Nato secretary-general, warned that the Dayton peace accord would "amount to little more than the most expensive ceasefire in history if efforts to achieve national reconciliation and reconstruction do not succeed".

A delegation of six US senators attending the meeting after visiting Bosnia expressed similar concern. Senator Joseph Lieberman said the group had been most troubled at the slow pace of work of the mission to rebuild Bosnia headed by Mr Carl Bildt. *Peter Norman, Munich*

● Mr Warren Christopher, US secretary of state, warned Serbian President Slobodan Milosevic yesterday that full lifting of economic sanctions would depend on his help in bringing accused war criminals to justice.

US officials said Mr Christopher had told President Milosevic that a permanent lifting of sanctions would depend on Serbian help with the extradition to The Hague of Bosnian Serb leaders and Yugoslav army officers accused of war crimes. *Paul Wood, Belgrade*

Ukraine miners stay out

Ukrainian coal miners continued their stoppage at the weekend, but the nationwide strike appeared to be losing momentum, with the Kiev government refusing to bow to demands for back pay and fresh subsidies.

Trade union leaders reported 91 of 227 pits stayed closed on Saturday, down from 123 on the first day of the strike, but the government estimated only 27 mines continued to honour the strike, mostly in the mineral-rich eastern Donbass region. *Matthew Kaminski, Kiev*

● Russian coal miners ended a two day-strike over the weekend after the government caved in to demands for the payment of massive wage arrears and greater state subsidies for the coal industry. Union officials said the government had promised to spend Rbs10,400bn ($2.2bn) on the coal industry this year, a sum which included some Rbs600bn to cover wages not paid since October. *Chrystia Freeland, Moscow*

Miot named AFP president

Mr Jean Miot, a manager of the conservative Hersant press group, is the new president of Agence France-Presse, the state-controlled news agency, in a victory for the Juppé government which ousted his predecessor, Mr Lionel Fleury.

Using its five votes on the AFP board, the government had blocked the re-election of Mr Fleury, who had initially received unanimous backing from newspaper representatives on the agency board including Mr Miot himself. The government criticised Mr Fleury's lacklustre management and denied claims it was retaliating for the agency's reporting of prime minister Alain Juppé's political problems last year.

Mr Miot resigned on Friday from the AFP board to become a candidate and on Saturday won sufficient backing to succeed Mr Fleury. AFP prides itself on being the world's third largest general news agency, but its turnover last year of only FFr1.2bn ($240m), nearly half of it coming directly or indirectly from the French state, puts it far behind Reuters and Associated Press. *David Buchan, Paris*

Yilmaz seeks Turkish coalition

Mr Mesut Yilmaz, leader of Turkey's conservative Motherland party, will today begin contacts with political leaders in an effort to form a coalition government after his rival, Mrs Tansu Çiller, announced on Saturday she had given up trying to form a government after two weeks of negotiations.

Mr Yilmaz is the third party chief to try to organise a coalition after inconclusive general elections in December. Earlier, Mr Necmettin Erbakan, leader of the Islamist Refah party, also failed to find any alliance partners, even though his party is now the largest in the 550-member parliament, with 158 MPs. Mr Yilmaz may succeed in striking a deal with Refah that would give his highly-regarded economics team control over economic policy. Parties have until mid-March to agree. President Süleyman Demirel will be required under the constitution to call fresh elections. *John Barham, Ankara*

Alia accused of genocide

A court in Tirana yesterday ordered former Albanian president Mr Ramiz Alia to remain in prison, after his arrest on charges of genocide and crimes against humanity, despite pleas that Mr Alia, 70, be placed under house arrest owing to his age and health.

Mr Alia was the country's first democratically-elected president in 1991, and succeeded Albania's long-time dictator Enver Hoxha. He is the 32nd high-ranking communist official to be arrested since the passage of the "genocide law" in October last year, designed to prosecute offences committed during Albania's 45 years of communist rule. Opposition leaders say the genocide law is an act of political vengeance on the part of the ruling Democratic party and President Sali Berisha, to hurt their former communist political opponents before general elections this year. *Marianne Sullivan, Tirana*

Poll boost for Spanish right

Four weeks before national elections, Spanish voters are backing the opposition Popular party over the governing Socialists by a margin of 10 percentage points, according to two latest polls. The conservative Popular party, led by Mr José María Aznar, is supported by 42 per cent of Spaniards expected to vote in the March 3 election, a poll in El Periodico, the Barcelona daily, said.

That figure could give Mr Aznar's party a slim majority in parliament, the poll said. The Socialist party of prime minister Mr Felipe González, who has been in office since 1982, is expected to win 31.8 per cent. The Popular party released results of its own poll on Saturday, which gave the party 42 per cent, against 31.5 per cent for the Socialists. *AP, Madrid*

Maccanico works on cabinet

Italy edges towards new government

By Robert Graham in Rome

The delicate task of forming Italy's 55th post-war government is expected to take all this week.

Mr Antonio Maccanico, the 71-year-old premier designate, said over the weekend he would need another six or seven days to draw up his cabinet and gain broad-based backing for a government programme. This followed preliminary contacts with representatives of the 26 parties in parliament.

Mr Maccanico, who was asked to form the government last Thursday, has exuded a quiet confidence in his few public comments made so far. He has also received strong encouragement from the leaders of the main political parties, all extolling his virtues as a negotiator and man of integrity. Nevertheless he is proceeding cautiously. His public admission that he needs at least all this week underlined just how difficult a task he faces.

Mr Maccanico, who ran the prime minister's office under the Ciampi government (1993-94), is not an MP, nor is he directly linked to any of the political parties. This neutrality was central to him being given the brief to head the new government, which is pledged to carry out a reform of the 1948 constitution.

This week he will be tackling two problems – one concerns the composition of his cabinet, the other the government programme, which must pass a vote of confidence in parliament.

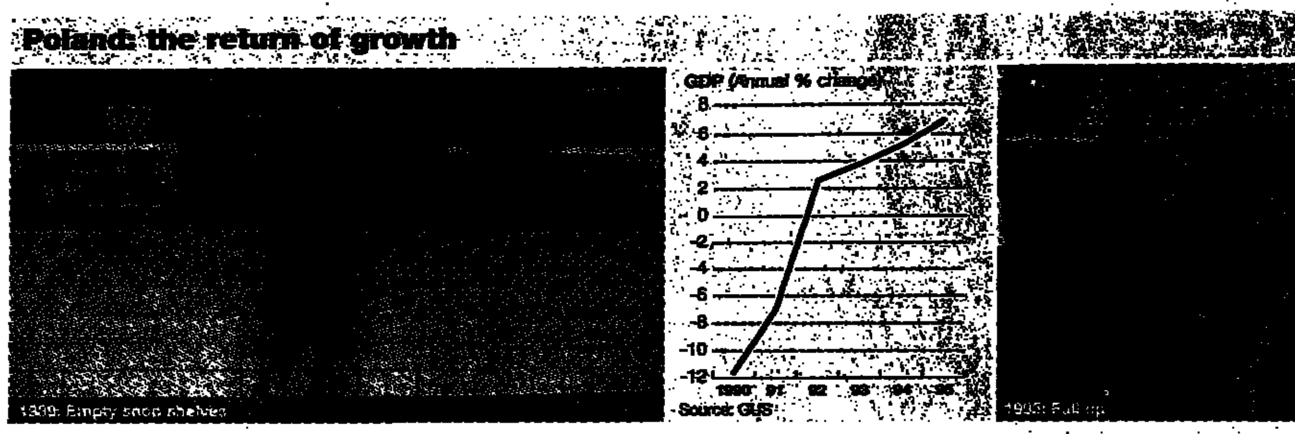
The government is being backed by parties with radically different philosophies and traditions.

On one side Mr Maccanico is being supported by the Party of the Democratic Left (PDS), which is the heir of the old Italian Communist party; on the other the right-wing alliance headed by Mr Silvio Berlusconi, former premier, and his partner Mr Gianfranco Fini, leader of the National Alliance, spawned by the now defunct neo-fascist MSI. For the past two years these opposing alliances have fought bitter battles in parliament on every single issue, sometimes paralysing parliamentary business.

Mr Maccanico must now draw up a ministerial team that manages to please all sides of the political spectrum, without being too weighted in the favour of any one party or alliance.

The second problem centres on the split role of the new government – divided between daily business and the need to referee the drawing up of new powers for the executive, introducing a semi-presidential system of government. At present the parties are widely separated both in their approach to economic policy and on the specific nature of the constitutional reforms.

One leading political commentator drove home the risks: "If the attempt to remodel the state and promote a government to lead us in the meantime fails, Italians would not limit themselves to huffing and puffing as they have in the past," wrote Vittorio Feltri, editor of Il Giornale newspaper. "Their anger would be so strong that it would lead to something I dare not even imagine."



Poland finds feelgood factor

By Christopher Bobinski in Warsaw

Poland has discovered the feelgood factor. Three years of economic growth have finally brought the country's industrial production back to the levels of 1989, the last year of communist rule, and there is a sense that things may get better.

Shop shelves are lined with high quality imported and home-made goods, and formerly drab streets are alive with new stores, restaurants and banks and the explosion of private car ownership. Even the bleak memories of 1989, when inflation soared out of control and long queues were commonplace, have dimmed.

Figures just released by the General Statistics Office (GUS) show that 1995 experienced a 7 per cent rise in gross domestic product, a return to the 1989 levels.

The once-despised zloty has been replaced by the new hard zloty, introduced last year, which exchanges for around 2.5 zlotys to the US dollar and is appreciating in real terms. Inflation, which peaked in 1990 when prices rose 618 per cent, dropped to 27.8 per cent in 1995 and is expected to be down to 20 per cent by year-end.

But the gains have not been equally spread. GUS figures show that GDP in 1995 was 3 per cent higher than in 1989, but this has been accompanied by massive job cuts. While the loss of jobs has contributed to higher productivity, it has also left a total of 2.6m people registered as unemployed.

Also, for millions of Poles improved macro-economic performance has meant cuts in real incomes after the 1990 "shock therapy" market reforms and the collapse of the Soviet market. The purchasing power of the average wage is only 75 per cent of 1989 levels as a 38-fold increase in prices has outpaced income growth. But the rich have grown richer.

Privatisation has also changed the face of the economy. Unlike other former communist countries, Poland's largely private agriculture industry and a sizeable co-operative sector ensured that, even in 1989, around 47 per cent of the population was recorded as working in the private sector. That figure grew to 63 per cent last year. During this time 40 per cent of state sector enterprises disappeared. Nearly 4,360 state-owned companies remain. The others collapsed under the weight of their own debts, were taken over by private investors or were bought out by management and employees. At the same time the number of private joint stock companies has grown six fold to 95,017.

In some areas the transformation has been dramatic. A mere 2 per cent of retail turnover remains in state hands. Two thirds of turnover in the construction industry was earned by state-owned companies in 1989, but only 13 per cent last year.

In the heavy industrial sector, meanwhile, mining, the power industry, steel and other sectors remain largely in state hands, although output and employment has shrunk.

The structure of Poland's liberalised foreign trade has changed entirely. In 1989, Poland's most important trading partner was the Soviet Union, which held a 33 per cent share of Poland's total trade. Now, nearly 40 per cent of Polish exports go to Germany, which supplies 27 per cent of Poland's imports. The total share of Polish trade held by the former Soviet states has slipped to around 10 per cent.

Poland's frontiers have also become more open. In 1989, a mere 8.2m foreigners crossed the country's borders. Last year the tally was 10 times higher, with 82.2m visitors arriving, mostly from neighbouring former Soviet states to the east. Foreign trips by Poles also have risen from 19.3m frontier crossings in 1989 to 36.4m last year.

At home, many families have adapted to lower real incomes by having fewer children, despite a recent virtual church ban on abortion. Last year saw the smallest population increase in Poland in any single year since the war.

This is partly a reflection of the acute housing shortage. Housing completions are down to 1940s levels with only 58,400 dwellings finished last year compared to 150,200 in 1989 and an annual peak of over 250,000 in the late 1970s.

But the crisis mainly refers to the drop in construction of the state, municipal and co-operative high-rise housing blocks favoured by communist regimes throughout the region. Last year almost 500,000 houses were being built by private individuals, 54 per cent more than six years ago. Private house building now accounts for over 50 per cent of the total, compared to 37 per cent in 1989.

Although the birth rate has fallen, the mortality rate of babies in their first year, considered one of the best measures of the general health of a society, fell from 19.1 per 1,000 in 1989 to 13.4 per 1,000 last year. Average life expectancy for men has also risen to 67.5 years, a year longer than only six years ago. For Polish women, the average increased by six months to 76.1 years.

Greater longevity is partly a reflection of improved food and water, with new municipal purification plants being built, and of reduced pollution, with industry installing gas and sulphur emission control equipment. Emission of sulphur dioxide in 1994 was 65 per cent down on 1989, although, at 1.1m tonnes, it was still among the highest in Europe.

US, Russia differ on Nato

By Peter Norman in Munich

The US and its leading European allies offered Russia a full and active partnership with Nato as a way of building peace, prosperity and democracy.

But at this year's "Wehrkunde" conference of foreign and security experts, Mr William Perry, the US defence secretary, and Chancellor Helmut Kohl of Germany also insisted on the Atlantic alliance's right to expand by absorbing new members from the former communist countries of eastern and central Europe.

Nato expansion proved the key bone of contention between Russia and the western allies at the meeting and overshadowed attempts by Mr Kohl and others to give political support to President Boris Yeltsin ahead of the presidential election in Russia to be held this summer.

Mr Andrei Kokoshin, Russia's deputy defence minister, told the meeting that the national consensus towards Nato expansion was "unambiguously negative" and voiced fears that it could lead to Nato nuclear weapons in former Warsaw Pact countries.

He struck a more hostile tone in written remarks circulated to delegates. He said the prospect of Nato membership for countries in eastern and central Europe "aggravates in Russia the feeling of vulnerability with unpredictable political implications". But Mr Perry said that "Nato enlargement is inevitable." Aspiration to Nato membership was the "rock on which major political parties in countries such as Hungary and Poland had based their platform".

However, he offered Russia a partnership that would make up for the Soviet Union's refusal to join in the programme of prosperity for Europe mapped out 49 years ago in the Marshall Plan.

Security co-operation in Nato's Partnership for Peace programme, which includes Russia, could act as a catalyst for political and economic reform, he said.

Mr Perry said Nato and Russia needed to build on common ground and should agree a plan of activities outside the Partnership for Peace programme.

The Russian brigade serving in Bosnia has already created a special relationship between Nato and Russia in that country.

TVEL wins Ukraine contract

By Matthew Kaminski in Kiev

TVEL, a Russian nuclear energy concern, has beaten western competitors to win a government tender to build a Ukrainian nuclear fuel plant.

Under the provisional deal, TVEL will invest about $100m (£65m) to construct the plant. The international tender was the first in Ukraine's large and investment-starved energy sector. Westinghouse, the US giant, and Asea Brown Boveri, a Swiss-Swedish engineering concern, also submitted bids when the tender closed in October.

But in announcing the result on Friday afternoon, Ukrainian officials cited the lower price offered by TVEL along with the promised Russian government guarantee to provide and enrich natural uranium when the plant begins operations, possibly as soon as this year.

The plant, which could be finished within four years, will assemble nuclear fuel rods made specifically for Ukraine's VVER-1000 reactors, the most recent Soviet-designed model.

Although Ukraine has substantial uranium deposits, the rods will be enriched in Russia. Kiev lacks the means – and has no need – to construct a full-cycle nuclear fuel enrichment plant, which could cost $2bn.

The factory is intended to lessen complete dependence on Russian fuel rod supplies.

Foreign investors are cautiously optimistic Ukraine can come up with the financing needed to carry out its stated intention to expand the use of nuclear power.

Ukraine currently operates 11 VVER-1000s and four more are under construction. With the Chernobyl plant possibly slated for closure by 2000, the Kiev government wants to upgrade the other reactors.

ABB and Westinghouse considered the nuclear fuel rod plant contract an important first step – although both companies have set up other joint-ventures, with ABB investing $60m since Ukraine gained independence in 1991.

An official at the state atomic energy commission told Interfax news agency that the tender committee urged the Kiev government to negotiate the joint-venture contract with Westinghouse instead if the Russian government failed to come through with the promised guarantees.

Red barons try to roll back privatisation

By Chrystia Freeland in Moscow

Five years after the collapse of communism broke their stranglehold over the country's economy, Russia's red barons are fighting back.

Russia's bold mass privatisation programme weakened many of Russia's stolid Soviet-era factory directors and transferred control of their enterprises to a flashy new breed of Moscow financiers. But, following the communist triumph in December's parliamentary elections and the sacking of prominent reformers from the government, the rump of old-style red directors have mounted a spirited campaign to roll back the tide.

This national trend has been highlighted by the recent efforts of the old managers of two of Russia's flagship companies to wrest control from the private entrepreneurs who acquired big stakes in them through the country's privatisation programme.

Last week the manager of Norilsk Nikel, the world's largest producer of nickel and one of Russia's most valuable companies, told parliament he would like to buy back the 38 per cent stake in his enterprise currently controlled by Oneximbank, one of the most powerful of the financial institutions which have sprung up in Moscow since the collapse of communism.

The move followed what one observer described as "a mini-coup" at Zil, the Moscow-based car maker which once produced limousines for the Soviet elite but has now fallen on hard times. At a meeting of the board of directors last month, the old Soviet managers – who call themselves "Zilovtsi" or the Zilites – ousted the director who had been put in place last year by a group of Moscow financiers, led by Microdean, a young Moscow company which began as an electronics retailer but now has wide-ranging real estate and industrial holdings and a controlling stake in Zil.

These battles are being watched closely by Russia's political and business leaders, because they are part of a broader effort to reverse at least partially the bold privatisation programme which has transferred 80 per cent of the Russian economy into private hands.

"We know that the entire country is watching what is happening at Zil. It is a test case for Russia," said Mr Nikolai Menchukov, a Microdean spokesman.

The growing momentum behind efforts to roll back privatisation suggests that western fears of Mr Gennady Zyuganov's Communist party may be somewhat misplaced: the challenge to Russian market reforms comes not only from the communists but also from the hardline faction which is increasingly powerful within Mr Boris Yeltsin's Kremlin.

The campaign for what Russians coyly describe as "de-privatisation" has already enlisted a number of high-level supporters. Mr Yuri Luzhkov, the influential mayor of Moscow whose relationship with the Kremlin has grown closer over the past month, recently called for criminal proceedings to be launched against the architects of Russia's mass privatisation programme.

At a meeting last week with Moscow city prosecutors, the mayor described Mr Anatoly Chubais, the deputy prime minister who was sacked last month after spearheading the country's privatisation drive, as "Russia's chief culprit".

"Chubais may not have had any malicious intent, but, nonetheless, the prosecutors' office should consider his performance," Mr Luzhkov said.

But the most serious threat to private property in Russia could be the special committee formed by parliament last week to review the legality of privatisation. The first casualty of the committee is likely to be last autumn's hasty and controversial shares-for-loans privatisation programme, already ruled invalid by the Ministry of Justice.

For western investors and Russia's bourgeoisie, these challenges to privatisation are one of the biggest threats since the collapse of communism.

The conflict cannot be reduced to a simple struggle between free market forces and neo-communists.

Even leading Russian reformers admit that, in many instances, the red directors have a moral and legal point because of the corrupt and uncompetitive way much of Russia's state property was transferred to private hands. But the messy character of Russia's privatisation process means once "de-privatisation" begins it will be very difficult for courts and investors to determine where it ends.

THE FINANCIAL TIMES
Published by The Financial Times (Europe) GmbH, Nibelungenplatz 3, 60318 Frankfurt am Main, Germany. Telephone ++49 69 156 850, Fax ++49 69 596 4481. Represented in Frankfurt by J. Walter Brand, Wilhelm J. Brüssel, Colin A. Kennard as Geschäftsführer and in London by David C.M. Bell, Chairman, and Alan C. Miller, Deputy Chairman. Shareholders of the Financial Times (Europe) GmbH are: The Financial Times (Europe) Ltd, London and F.T. (Germany Advertising) Ltd, London. Shareholder of the above mentioned two companies is: The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.

GERMANY:
Responsible for Advertising: Colin A. Kennard. Printer: Hürriyet International GmbH, Admiral-Rosendahl-Strasse 3a, 63263 Neu-Isenburg ISSN 0174 7363. Responsible Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.

FRANCE:
Publishing Director: P. Maraviglia, 42 Rue La Boétie, 75008 PARIS. Telephone (01) 5376 8254, Fax (01) 5376 8253. Printer: S.A. Nord Eclair, 15/21 Rue de Caire, F-59100 Roubaix Cedex 1. Editor: Richard Lambert. ISSN 1148-2753. Commission Paritaire No 67808D.

SWEDEN:
Responsible Publisher: Hugh Carnegy 468 618 6088. Printer: AB Kvällstidningen Expressen, PO Box 6007, S-550 06, Jönköping.

Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
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Japan braced for pressure on US access

By William Dawkins in Tokyo

Japanese trade negotiators are bracing themselves for the US to increase pressure over access to the Japanese market over the next few weeks.

Senior US officials, most recently Ms Joan Spero, US undersecretary of state for economic affairs, have signalled in the past few days that Washington expects progress before mid-April when President Bill Clinton meets Mr Ryutaro Hashimoto, Japan's new prime minister, in Tokyo.

The Japanese government is on the alert again over disputes concerning air cargo, on which talks begin today in Tokyo, semiconductors, photographic film and insurance.

Mr Tomio Tsutsumi, the most senior official in the ministry of trade and international industry, said last week the government's opposition to US demands on the two issues under his control, film and semiconductors, was clear and that "we are prepared to explain it if there is a chance".

Nobody in Kasumigaseki, the civil service district, expects the pressure to be as intense as in last year's feud over access to Japan's car market. Nevertheless, officials expect trade again to be high on the bilateral agenda.

On air cargo, officials on both sides in Tokyo expect some progress by a March deadline. The dispute is over their relative share of so-called "beyond rights", under which carriers can pick up a load in one country and carry on to other destinations.

Tokyo complains that US airlines have a disproportionately large share of routes through Japan to fast-growing and profitable Asian destinations. The US suggests all restrictions should be dropped; Japan does not want to do this until its airlines are allowed a comparable number of beyond rights.

Insurance is another dispute where Japanese officials say there are hopes of progress before the Clinton summit. Tokyo has already announced plans to free premiums and introduce a brokerage system.

However the US is concerned that the government should stick to plans to liberalise life and non-life insurance, the largest types of business, before allowing competition in the so-called third sector, including health and accident policies.

Japanese negotiators are much less hopeful of progress on semiconductors and photographic film. The US-Japan semiconductor agreement, under which foreign chip makers are reserved a 20 per cent share of the Japanese market, expires on its 10th anniversary at the end of July.

Now that foreign semiconductors have roughly a fifth of the market, Tokyo sees no reason to extend an accord which it did not like in the first place and which weakened Japan's ability to refuse demands for similar deals in other sectors, including the car market.

US trade officials believe the accord's success is a strong reason for renewing it. There is, however, some room for flexibility on figures. A target is no longer central, they say, but a regular forum for bilateral talks on semiconductor trade is needed.

The gap on the photo film dispute is wider. Eastman Kodak, the US film maker, alleges anti-competitive practices by Fuji Film, condoned by the government. Miti's Mr Tsutsumi repeated the ministry's refusal to negotiate with the US on the grounds that the ministry sees no official trade barriers to the film market.

This slight rise in temperature may appear curious in the light of the recent announcement of the first decline in Japan's trade surplus with the US for five years – down by 17 per cent to \$45.56bn (£29.5bn) in 1995.

It looks as if the US has already won the battle, whether by dint of its own trade pressure or the yen's decline.

China expects continued sharp rise in foreign trade

By Tony Walker in Beijing

China's foreign trade is expected to grow by 12 per cent annually over the next five years and exceed \$400bn (£260bn) by 2000, according to a report by its Customs Administration.

The country's two-way trade grew strongly last year to \$281bn, up 18.6 per cent over the year before, and the country ranked 11th among the world's trading nations in 1995.

China's trade surplus reached \$16.69bn, compared with \$5.3bn in 1994. Exports grew by 23 per cent, and imports were up 14.2 per cent.

The report said China's continued tight credit policy, aimed at curbing inflation, would act as a spur to exports. It would dampen domestic demand, forcing enterprises to "survive through exporting more".

"With such factors as deregulation of foreign trade, huge foreign exchange reserves, large cuts in tariffs and the slow appreciation of the yuan, a 12 per cent increase in imports over the next five years is attainable," the report said.

It expects average annual GDP growth of 8.7 per cent in the next five years, and a 10 per cent rise in industrial output.

Strong growth in exports of machinery and electronics is forecast as Chinese industry becomes more sophisticated and attuned to world markets. Exports of these items reached \$44bn last year, 29.5 per cent of total trade.

China's production of machinery and electronics is planned to grow 15 per cent annually during the Ninth Five Year Plan (1996-2000). Beijing is encouraging industry to produce more sophisticated items for the international market.

"The aim of promoting enterprises to produce more quality products with higher added value should help quiet dumping complaints against China," the report said.

China, which has been rapidly expanding with average GDP growth of more than 10 per cent over the past five years, has attracted repeated accusations of dumping.

The report based its predictions of a continuing strong rise in machinery and electronics exports on forecast growth in world machinery and electronics consumption of 10 per cent annually.

"With that growth rate, and if machinery and electronics exports account for 40 per cent of China's foreign trade total, an annual overall export growth rate of 12 per cent would likely be achieved, even if export growth of textiles and garments drops beneath 10 per cent."

INTERNATIONAL PRESS REVIEW

Brawler Keating's blows land wide of mark

AUSTRALIA

By Nikki Tait

Few matters remain secret for long in Australia. So, by the time Paul Keating, the nation's prime minister, visited the governor-general to ask him to dissolve parliament – the preliminary step to calling a federal election – television cameras had already staked out the scene.

But this was not prime time television. In broadcasting this scoop, Mr Laurie Oakes, doyen of the Canberra press gallery and chief political correspondent of the Nine network, was competing with early morning cartoons.

"Sure, it was a scoop, but we suspect Laurie's juvenile audience at that time would have been much more interested in Bugs Bunny, Daffy Duck and co," noted the diary writer at the *Australian Financial Review*.

Had Tom and Jerry been playing at the time, though, one wonders if the youngsters would have noticed much difference. For most of week one – and there are four more to go – the election's main focus was the efforts of a cat-like Keating to lure John Howard, leader of the coalition opposition, within striking range.

According to a columnist in the *Sydney Morning Herald*, the latter was winning: "Since the launch of Labor's environment package... at the beginning of last week, Keating has looked at times exhausted and drawn, a man under pressure and out of sorts with himself."

But another observer in *The Australian* thought this quite predictable: "Six months ago, a reflective Paul Keating offered this assessment of how the federal election campaign would unfold. 'For the first week, you are stumbling around, pulling the lines together. Then you start really refining them, and by the third week they're deadly. A punch in every sentence.'

"One week in, the Keating preview has proved uncannily prophetic, if somewhat understated."

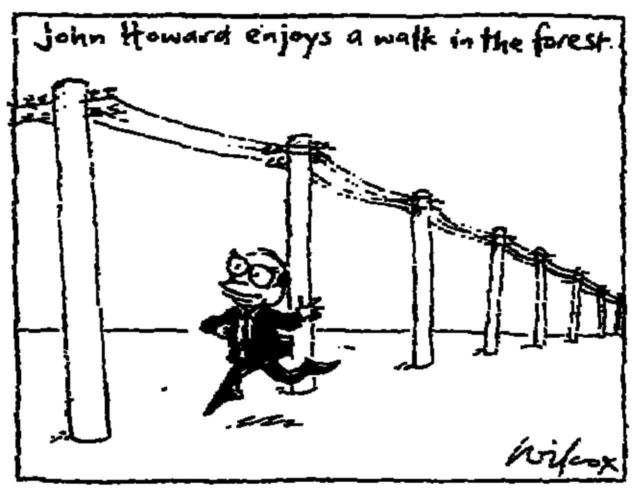
A writer in Melbourne's *Sunday Age* agreed with this last sentiment, at least. "It was a rough week, bearable only if you could suspend disbelief. Keating the brawler was trying to engage Howard, the boxer. In the end, the only ones to be thumped were we, the people."

And what is the substance of this cat-and-mouse game? Well, Mr Keating's claims ranged from the allegation that Asian leaders would not deal seriously with a coalition government, to exasperation over Mr Howard's coyness. "No debates, no doorsteps, no explanations – it's just an outrage," he thundered.

The problem for the media is that this early-round jousting certainly doesn't warrant the copious space/time set aside for election coverage.

As one press-watcher put it: "Members of the Canberra press gallery have to file campaign stories each day. It's a case of lotsa space chasing little content."

Still, everyone tried hard. At least two days were occupied by a big kerfuffle over Telstra, the telecommunications group which Mr Howard's coalition wants to partly privatise. The policy includes spending A\$1bn (£400m) of the estimated A\$8bn proceeds on its environment programme.



The Sydney Morning Herald view of Howard's pledge to spend some proceeds of telecoms privatisation on the environment

News of this interesting telecoms link brought upbeat coverage on the first day, along the lines of "Howard's A\$1bn bid for the green vote". On the second day, it turned more downbeat, as the analysis focused on the theme: "Green groups reject Howard funds plan".

The Sunday Age took a more imaginative line. "No one asks the two obvious questions," it noted. "Why has Howard suddenly gone green? And better still, why does the environment need A\$1bn? Might not A\$400m have been enough? Here we touch on one of the weird aspects of Australian politics. Some subjects are sacrosant – beyond logic. Anyone who pelts them with money must be a good person."

Mr Keating and Labor, meanwhile, were seizing the opportunity to polish their Telstra lines – a development noted by the SMH. "Welcome to the magic pudding election," it advised.

The paper was referring to an Australian tale about a fabled magic pudding that can be any flavour, and be cut and eaten indefinitely.

"The puddin' in question is Telstra, of which Paul Keating said yesterday: 'The opposition sees it as some kind of milch cow, a magic pudding they can get their hands on,'" the *SMH* said. "Lacking a goods and services tax to polarise the nation, the government is dividing the nation into puddin' thieves (coalition) and puddin' owners (Labor)."

At the end of week one, it was left to Mike Carlton, resident humorist at the SMH, to offer the most succinct summary of the election's first week. "So far, it's been just awful," he moaned, "and they are hardly out of second gear..."

State election setback for Labor

Australia's ruling Labor party suffered a big electoral setback over the weekend, appearing to lose a state by-election in Queensland and, with it, control of the state government, Nikki Tait reports from Sydney.

The result of the Mundingburra by-election will not be formally announced until postal votes have been counted, but the expected outcome was interpreted as a bad omen for the federal Labor government, which has called an election for March 2.

Labor is trailing the Liberal-National coalition opposition by up to 10 points in most national opinion polls. Politicians warned against drawing too many parallels between the state result and the federal campaign, but the result was seen as a pointer to voters' sentiment.

If Labor lost heavily in Queensland and failed to make up ground in other states, it would be out of office for the first time in 13 years. At present, Labor holds 13 of the 26 federal seats in Queensland, but defends seven of these by a margin of less than 3.5 per cent.

The Mundingburra by-election resulted from a legal challenge following a state election in Queensland last year, which saw Labor's majority slashed from 19 seats to just one. In Mundingburra, Labor's majority was only 16 votes, and the court of disputed returns ruled that a fresh by-election be held.

In an effort to hold the northern seat, Labor changed its candidate. But at the weekend, the Liberal candidate polled 7,881 votes, compared with Labor's 7,076. An independent who was the the former Labor candidate got 702 votes.

If the coalition does win, the balance of power in Queensland will be held by an independent thought more likely to do a deal with the coalition than with Labor.

Republicans retreat from their revolution

Jurek Martin finds hardline US reformers are learning bitter congressional truths

Three months ago, the great question was how President Bill Clinton could redeem himself in the face of a likely defeat on the budget at the hands of rampant Republicans. Now the boot is firmly on the other foot.

As Mr Charles Krauthammer, the conservative commentator, fulminated in his Washington Post column last Friday – "So this is what the great Republican revolution has come to: no welfare reform: no entitlement reform: no tax cuts: no balanced budget. But if you are HIV-positive... you will now be kicked out of the military."

His scathing pessimism may be overstated. It is not impossible in the months ahead that legislation will be passed by the Republican-controlled Congress on some, if not all, of the policy issues, though they will have to be on terms acceptable to the Democrat president. In the meantime, individual states are proceeding with their own versions of welfare and Medicaid reform, operating under licence from the Clinton administration, though without the block financial grants they thought were coming their way.

President Clinton garnering support at a weekend rally on crime and community policing in New Hampshire *Reuter*

But Mr Krauthammer's basic judgment is surely right: last week showed how far the Republicans had retreated. Their leadership conceded, in a letter to Mr Clinton, that it would be wrong to force the government to default on its obligations. Just as shutting down the government twice proved ineffective in forcing the president's hand on the budget, so has holding the debt ceiling hostage.

Mr Newt Gingrich, the Speaker of the House, also spoke of smaller tax cuts as an inducement to get conservative Democrats to agree to a modest balanced budget agreement. A group of moderate Republicans in the House even proposed that tax cuts be dropped altogether.

The leadership itself appears frayed and divided. Although not a vote has yet been cast nor a convention delegate chosen, Senator Bob Dole, the majority leader, is finding his once sure path to the presidential nomination strewn with the rocks thrown by Mr Steve Forbes, the magazine publisher. Perhaps worse, he has started looking his age, especially in his disastrous TV response to Mr Clinton's state of the union message

Mr Gingrich's standing has fallen so far that, in the words of another conservative pundit, he is "flying low to the ground". In Congress as a whole, his party's militant freshman class of '94 seems to have mislaid its distinctive voice and sense of purpose.

The loss of the Republican Senate seat in Oregon last Tuesday was not entirely unexpected and the margin of defeat was narrow. But, as Mr Gingrich conceded, a principal reason for the victory of Mr Ron Wyden, the Democrat, was hostility to the Republican attempt to eviscerate environmental laws, once an important plank in the party platform but surely now on the back shelf.

In these circumstances, it is probably as well that Congress is going into recess for three weeks to allow members to tend to their constituencies – and to get Mr Dole and others out of Washington and on to the primary election hustings. Even Mr Clinton found time over the weekend to press the flesh in New Hampshire, the first state which will go to primary polls.

But into the capital marched the nation's governors for their annual conference, and Republicans and Democrats alike were, for once, singing from the same hymn-book. As their chairman, Republican Governor Tommy Thompson of Wisconsin, put it, "if the legislation [on welfare and Medicaid] is not passed by Congress and signed into law, states are going to be in terrible financial shape", because many had already made budgetary decisions on the assumption that block grants were en route.

Their concerns probably point the way for the Republicans to try to come up with effective fall-back positions. The budget negotiations between Congress and the White House showed a substantial narrowing of the financial gap on Medicare, Medicaid and welfare reform, though important points of principled differences remain, not least over the basic "entitlement" to federal assistance.

Mr Clinton last week objected to the Senate version of welfare reform, which he once said he could support, because of its impact, inter alia, on the food stamp programme for the poor. But that might be subject to negotiation, as also might the Republican insistence on the establishment of private sector medical savings accounts in the Medicare programme.

Even a balanced budget agreement itself is far from dead, even though its likely component parts would be well removed from the original Republican demands. At least Republicans could claim part credit for having forced the president, against his initial judgment, to accept a balancing of the federal books within seven years.

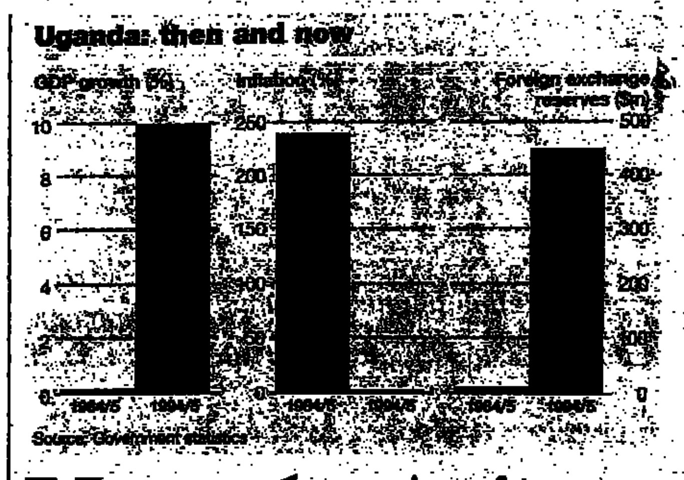
"Any agreement now", as Mr Robert Samuelson, Newsweek's economic columnist, put it, "is a down payment on a balanced budget", because it commits Congress and the administration to future disciplines and hard choices.

With or without this, the immediate task for Congress when it returns will be terms of a debt ceiling extension, due to be reached by February 29, and of another "continuing resolution" keeping government in business after the current one expires on March 15.

But all will require a willingness to compromise for now and fight the larger battle with the electorate in November. Mr Samuelson's advice to the Republicans is to avoid confusing "petulance with principle – being principled does not mean being rigid".

Mr Krauthammer would have the Republicans avoid the petty – such as discriminating against those suffering from Aids – and be more confrontational. But, as he also wrote, "there is no disgrace in losing. Republicans made a valiant, if tactically confused, attempt at major welfare state reform before learning that under the Constitution, one cannot govern, let alone run a revolution, from Congress".

Whether that bitter lesson has been learned will be discovered over the weeks ahead.



Uganda Asians start up again

Michela Wrong reports on an enterprising community six years after it was allowed to return

Mayur Madhvani likes to invite visitors to his sugar works at Kakira, a 1¼-hour drive north-east of Kampala, to see the cane from his estate being shredded, drained, rinsed and purified into sweet white crystals.

The Asian businessman has every reason to be proud. In the last six years, production has gone from zero to nearly 64,000 tonnes a year. It is a similar story at Nile Breweries down the road in Jinja, where his nephew, Mr Roni Madhvani, has boosted output from a meagre 35,000 cases a month in 1992 to 220,000 cases.

But the figures are not as impressive as they might at first seem. The sad truth is that both enterprises, seized by the state when dictator Idi Amin expelled Uganda's Asian community in 1972, have only just reached production levels touched at confiscation.

In the intervening years, the Madhvani business empire was allowed to collapse until only the brewery still operated. "For 25 years time stood still," says Roni. "A quarter of a century of progress was lost."

If Uganda is now regarded as one of Africa's few success stories, with gross domestic product rising 8 per cent in 1995 and three-digit inflation falling to 5 per cent, the distance it has had to travel merely to reach a point attained decades ago has been enormous.

The bloody regimes of first Amin and then Milton Obote sent most of the 70,000 Asians – who owned 90 per cent of the country's businesses – into exile, all but wiped out the middle class and left the infrastructure in tatters.

Ten years after President Yoweri Museveni's forces began imposing order on chaos, Uganda remains one of the poorest countries in the world, with annual per capita incomes put at $200 (£133). To meet its heavy debt bill, it relies on annual foreign aid injections of $800m.

The town of Jinja, once the industrial heartland, has not recovered and the country's biggest asset, its fertile, well-watered soil, is under-exploited. As Mr Museveni recently acknowledged: "Our society is pre-industrial and one class. It is 95 per cent peasant. Such groups are extinct elsewhere."

In his determination to pull Uganda into the 20th century, Mr Museveni has travelled the gamut from Marxist revolutionary to enthusiastic exponent of capitalism and a dedicated supporter of structural adjustment. Six years ago, he invited Asians to reclaim their assets or file for compensation. That process is now nearly complete. The Departed Asians Property Custodian Board, which had 8,000 cases on its lists, closed last month after deciding its work was over.

Only 7,000 Asians have rebased in Uganda. Many simply sold off their repossessed properties to locals and returned to Britain, Canada or India, which took them in. But those who came to stay were the wealthier families with assets too large to abandon. Mindful of the past, they have been forming joint ventures with locals or setting up training schemes, determined to be seen sharing their affluence with black Ugandans.

Their funds, economists say, account for a quarter of the $2bn invested in Uganda over the last five years. The Madhvani family, whose sugar, oil, beer and steel-making business is the country's biggest private employer, contributes between 7 and 8 per cent of GDP.

Settling property questions has also contributed to the visible transformation of Kampala. With ownership in doubt, no one spent money on refurbishment. Now the city echoes with the sounds of constant building work as smart office blocks rise up.

While the Asian return has certainly helped fuel Uganda's recovery, the message behind Mr Museveni's offer of compensation – that the rule of law would be respected in Uganda – was probably just as important in stimulating business.

By lifting exchange controls, disbanding state-run marketing boards, slating inefficient companies for privatisation, offering tax incentives and establishing a healthy dialogue between state and private sector, Mr Museveni has created one of Africa's most encouraging investment climates.

In the corridors of the finance ministry, western businessmen wait like supplicants in a royal antechamber for a chance to meet the minister and clinch a deal. "There's a buoyancy about Kampala," said Mr Brian Falconer, a World Bank representative. "You can feel things moving."

Experts say the future lies in developing non-traditional exports and processing that will add value to Uganda's agricultural products. Already fish and milk processing, floriculture and exports of vanilla are bringing in much-needed foreign exchange.

Aware that a market of 18m people is too small to support large-scale manufacturing industry, the government is pushing hard for a revival of the defunct East African Community and an end to tariff barriers with neighbours Kenya and Tanzania.

Whether Uganda can build on its success and reduce its reliance on foreign aid depends on whether Mr Museveni can continue to ensure peace and political stability in the face of growing opposition pressure and attacks by the Lord's Resistance Army, a rebel movement supported by neighbouring Sudan.

Foreign embassies, increasingly impatient with Mr Museveni's argument that multi-partyism is a recipe for disaster in a country with a history of tribal friction, criticised last October's five-year extension of a ban on parties. Many analysts fear the current "movement" system leaves Uganda's economic boom vulnerable, too reliant on the survival of one man.

Officials from donor countries, whose support is necessary for the continued success of economic recovery, say they will be watching for repression during campaigning for elections, expected in coming months.

INTERNATIONAL NEWS DIGEST

Koreans' $5bn for S E Asia

The LG Group plans to invest $5bn (£3.2bn) in south-east Asia and India by 2000, said Mr Koo Bon-moo, the chairman of South Korea's third-largest industrial conglomerate.

Indonesia is expected receive the biggest amount of LG investments in the region, with $1.8bn. Projects include an $800m housing complex at Cibubur, near Jakarta, in a joint venture with local and Japanese partners. LG plans to invest $1.3bn in a semiconductor plant in Malaysia and $1.2bn in a joint venture oil refinery in Vietnam.

India will receive $480m in LG investment, including a $300m petrochemical complex and $180m electronics factory. In addition, LG Electronics plans to assemble 20,000 television sets a year in North Korea in one of the biggest South Korean investments there to date, according to the National Unification ministry in Seoul. *John Burton, Seoul*

Chinese quake kills 240

At least 240 people were killed and 3,700 seriously injured by a powerful earthquake which ravaged a mountain town in south-western China, Chinese media reported last night.

The earthquake on Saturday evening had its epicentre near Lijiang, in Yunnan province, one of the region's most popular tourist areas, the Central Seismology Bureau said. County officials said the toll was incomplete because communications were poor, and authorities had not yet reached more remote villages. *AP, Beijing*

Arafat plea over border closures

Mr Yassir Arafat, president of the Palestinian Authority, called on the European Union and international community to put pressure on Israel to implement accords with the Palestinians "honestly and accurately". Addressing the annual meeting of the World Economic Forum, Mr Arafat denounced frequent closures by Israel of its borders with the West Bank and Gaza Strip. The financial losses to the Palestinians arising from the closures amounted to $8m a day, "a greater amount than all the pledges of aid we have received," he said.

Mr Arafat responded sharply to a comment by Mr Shimon Peres, the Israeli prime minister, that the Palestinian claim to East Jerusalem for its capital was only "a dream". He said the 1993 peace agreement said the Jerusalem question should be settled quickly and not later than the start of the third year: "That means that we are already too late." *Ian Rodger, Davos*

Tajiks fired as rebels advance

Tajikistan's president fired officials yesterday in a bid to placate rebels advancing from two sides on the capital of the former Soviet republic. President Emomali Rakhmonov fired his first deputy prime minister, chief of staff and the leader of a southern region, Russian news agencies reported. Rakhmonov's hard-line Communist government has been propped up by the Russian army since it won a 1992-93 civil war against a loose coalition of democratic and Islamic groups. Two warlords who helped bring Rakhmonov to power led uprisings late last month to demand he fire corrupt officials and improve the economy in the Central Asian nation of 5m people. *AP, Dushanbe*

Crackdown on Shia dissidents leads to 41 further arrests

More detained in Bahrain unrest

By Robin Allen, recently in Bahrain

The Bahrain authorities detained 41 more people at the weekend, intensifying a crackdown on unrest which has plagued the Gulf island state for the past 15 months.

The arrests on Saturday follow the detention last month of 544 Bahraini nationals, including Mr Abdul-Amir Al-Jamri, a Shia cleric, and seven other leaders of an opposition movement, on charges of rioting, arson, and sabotage.

Western diplomats reported that the country was calm yesterday. Bahrain has blamed Iran for instigating the violence and last week expelled Mr Abdul-Rasoul Dokoohki, a third secretary at the Iranian embassy, for "activities incompatible with his diplomatic status".

Iranian officials denied any involvement, and retaliated by ordering the expulsion of the Bahraini second secretary from its embassy in Tehran.

Western diplomats say Bahrain's strong stand will be welcomed by Saudi Arabia, which has been urging the government not to give into opposition demands for the recall of the national assembly, dissolved in 1975.

Bahrain is the smallest and least wealthy of the Gulf oil producers, with output of a mere 43,000 barrels a day. It is also a member of the Gulf Co-operation Council (GCC), a loosely-knit alliance of hereditary monarchies which includes Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates. Collectively the group owns more than 40 per cent of proven global oil reserves.

About two-thirds of Bahrain's national population is Shia, the Islamic sect which receives its spiritual inspiration from Iran. However, the ruling Al-Khalifa family is Sunni.

Businessmen and academics in Bahrain say the causes of the unrest are economic and social, affecting both Sunni and Shia in poorer rural areas.

There is also widespread resentment at members of the ruling family using their position – the Al-Khalifa hold eight, including all the most important, of the 18 cabinet portfolios – to win for themselves a disproportionate slice of the country's businesses.

Western diplomats are also sceptical about the extent of Iran's involvement. At the same time, they are concerned over stability in both Bahrain and the wider Gulf region. These concerns have increased since Iran's test-firing last month of a new low-flying missile.

Asian women get worst labour deal

By Frances Williams in Geneva

Asian women are now the fastest-growing group of migrant workers in the world and one of the most exploited and abused, according to a report by the International Labour Organisation published today.

About 1.5m Asian women are working abroad, many in slave-like conditions in domestic service or the "entertainment" industry.

Each year some 800,000 women leave their home countries, mainly Indonesia, the Philippines, Sri Lanka and Thailand, and demand for their labour is rising rapidly, the report notes.

"Were it not for illegal recruitment agencies, overseas employment promoters, manpower suppliers and a host of other legal and illegal subsidiaries, Asian labour migration would not have reached such a massive scale," the ILO argues. Illegal migration, often through well-organised underground syndicates, is estimated to account for well over half of total migration flows in some countries.

But while illegal immigrants are clearly highly vulnerable to exploitation, legal job-placement agencies can also be abusive, by retaining workers' passports, charging high fees or making loans that are a charge on earnings.

The report notes that most governments are trying to reduce the exodus of migrant women workers, but with demand increasing, agencies are proliferating. Attempts to restrict or regulate emigration often simply result in driving the process underground.

Apart from action to curb illegal migration, the report stresses the need for strict enforcement of labour protection laws in receiving countries and observance of international labour standards.

**International labour migration of Asian women: Distinctive characteristics and policy concerns, by Lin Lim and Nana Oishi, ILO, Geneva*

Airlines warned over free trade

By Michael Skapinker in Singapore

The airline industry runs the risk of being excluded from the world move towards free trade, Mr Cheong Choong Kong, Singapore Airlines managing director, warned yesterday.

Mr Cheong told an FT conference on Commercial Aviation in Asia-Pacific that in the establishment of regional free trade blocs there had been a tendency to exclude aviation. Countries which were enthusiastic about free trade were also determined to maintain a protectionist hold over air traffic.

"The minister who negotiates air service agreements pursues a policy philosophically opposed to that of the minister of trade, the person responsible for negotiating everything else," Mr Cheong said. He said even the aviation regime between the US and Canada had been achieved separately from the establishment of the North American Free Trade Agreement.

Mr Cheong said, however, there were signs that regional trading blocs were overcoming these problems. He predicted that blocs such as the European Union and the proposed Asean Free Trade Area would follow four stages in liberalising aviation.

The first would be where aviation is left out of moves towards free trade. The second would be when regional trading blocs moved towards a liberal internal air market but member states continued to make their own bilateral arrangements with countries outside the free trade area.

He said Mr Neil Kinnock, the European transport commissioner, was trying to move the European Union to the third stage, where the trading bloc as a whole negotiated with countries outside the region. Germany last week, however, said it had reached its own "open skies" deal with the US. The fourth stage would be as regional blocs established freedom of aviation between them.

Japanese company plans steel industry push

By Peter Marsh in London

One of Japan's biggest trading companies is moving into the British steel industry with a plan to set up a distribution centre in the English Midlands to supply the motor industry.

The plan by Itochu signals a further push by Japanese manufacturing and distribution companies into Britain on the back of big investments in the vehicle industry by Honda, Toyota and Nissan. It is believed that Itochu, a trading company with interests in construction, metal supply and electronics, has been encouraged to invest in UK steel distribution by Topy Industries, Japan's biggest maker of steel wheels, which has a strong UK presence.

Itochu said an announcement was likely later this year, ready for the distribution operation to open in 1997. Investment for the venture has still to be settled but will probably be less than £2m ($3.02m). Fewer than 20 new jobs are likely.

The project will cause a flurry in Britain's £1bn a year steel stockholding industry. This is based on small service operations taking steel from companies such as British Steel and selling it, after cutting and in some cases special processing, to users in sectors such as cars, electronics and white goods such as home freezers.

The scheme comes as BSD, Britain's biggest steel stockholding company, which is owned by British Steel, plans to open a £13.5m steel processing centre near Wolverhampton next month. This is one of Britain's biggest investment projects in steel distribution.

Steel stockholding has grown strongly in the past two years but is now thought to have overcapacity.

Of the roughly 3m tonnes a year of flat strip steel distributed in the UK via stockholding operations - also called steel service centres - BSD is thought to account for about 1m tonnes. There are also about 20 significant smaller stockholder companies, mainly UK owned.

Dunlop-Topy Wheels, 85 per cent owned by industrial group BTR and in which Topy has a 15 per cent stake, is likely to use steel from the Itochu operation in its Coventry-based wheels factory. The factory is Britain's biggest wheels plant.

Dunlop-Topy is Europe's fourth biggest maker of steel wheels for the automotive industry. It is a large supplier to Toyota's and Nissan's UK factories. It is also a big supplier to GM and Rover, which has a Japanese collaborator in Honda and which is part of BMW of Germany.

The Japanese distribution centre would probably take steel mainly from the French company Sollac, part of the Usinor Sacilor steel group, and cut and process the metal to Dunlop-Topy's requirements. Other customers could also use the service.

The Japanese trading company Mitsui already has a joint venture with William King, a Midlands steel processor. This operates a steel processing plant at Washington in north-east England to supply metal for Nissan's car plant there.

Trade ministry set for motor deal with China

By John Griffiths in London

An inter-governmental agreement opening up opportunities for UK motor components companies in China, described by the Department of Trade and Industry as offering a £30bn ($45.3bn) market by the end of the decade, will be signed in London today.

The six-element agreement, to be signed by Mr Ian Lang, the UK trade secretary, and Mr He Guangyuan of China's Ministry of Machinery Industry, recognises China's determination to develop its own motor industry and stresses joint ventures and local manufacture while playing down the prospect of direct exports.

The agreement comes a year after the British government launched a joint initiative with the Society of Motor Manufacturers and Traders to increase the level of collaboration with China. It was triggered by the government's conviction that China will be the biggest automotive parts market in the world by 2005.

China's original equipment components business will be worth £6bn between now and the turn of the century, with replacement parts worth a further £24bn. "Over the 10 to 20 year period after this, the growth in the sector is likely to be many times greater," a UK government official said.

Under the agreement a working group is being set up comprising representatives of ministries and the motor industries of both companies. It will meet formally only once or twice a year but will be responsible for day-to-day exchanges of information as contacts grow.

A crucial part of its function will be to seek out and recommend compatible partners for ventures. Others will include:

- Encouraging co-operation between the SMMT and its counterpart, the Chinese Association of Automotive Manufacturers.
- Promoting training, education and personnel exchanges in product design and development, manufacturing systems and processes and aftermarket supply, service, distribution and retailing.
- Organising joint exhibitions and conferences and promoting mutual exchange programmes.

The agreement is initially for five years.

The SMMT and the DTI have both launched a number of initiatives this year to improve productivity and efficiency in the UK components industry, including the DTI "learning from Japan" programme in which senior executives of smaller motor components groups were sent to Japan to learn lean production and quality-improving methods.

Private trains hit by fraud row

By Charles Batchelor, James Harding and James Blitz

Sir George Young, transport secretary, on board yesterday's first privatised service to London

The launch yesterday of the first privately-owned train services to run on Britain's railway network for nearly 50 years was marred by allegations of fraud at one of the first three companies to be privatised.

Investigations into claims that ticket revenues were wrongly retained by LTS Rail, the British Rail subsidiary which runs the London, Tilbury & Southend line, will delay its transfer to the private sector for at least a month.

LTS Rail's management, acting through a new company, Enterprise Rail, was awarded the franchise last December, but the inquiries could lead to the franchise being awarded to another company, a senior transport department official said.

The office of the franchising director, responsible for selling rail franchises, said "a serious breach" of the arrangement for settling ticket revenues had occurred and a director of LTS Rail had resigned. British Rail and Mr John Swift, the rail regulator, have launched separate inquiries.

British Rail's investigation was launched after a routine audit of ticket revenues disclosed that tickets sold at two suburban stations had been issued at LTS Rail's London terminus, Fenchurch Street. A small proportion of the revenue from ticket sales at Fenchurch Street goes to London Underground, which runs a parallel suburban service, and it was costing LU up to £30,000 ($45,300) in lost ticket revenues a month.

Mr Colin Andrews, commercial director of LTS Rail, has resigned.

These investigations will provide the opposition Labour party with additional ammunition for the Commons debate on rail privatisation which it has called for Wednesday, although opposition hopes of a revolt by backbench Conservative MPs appear to be fading.

Mr Brian Wilson, Labour's transport spokesman, said: "In a fragmented railway, every company will have a vested interest in maximising its own revenue by fair means or foul without regard to the passengers."

Sir George Young, Conservative transport secretary, said: "We would have liked to get all three [franchises] away. I hope we can get LTS Rail away in a month's time. There is no room in the public or the private sector for financial irregularities, but I reject the Labour assertion that this is endemic to the private sector."

The start of privatised services yesterday marked the culmination of four years of work by the government to break up BR and transfer its activities to the private sector. It also signalled the end of nearly five decades of the centrally-managed railway network created by nationalisation in 1948.

South West Trains, now owned by the Stagecoach bus group, ran the first privatised service yesterday - the 05h10 from Twickenham in south-west London to Waterloo - while Great Western, owned by its management and FirstBus, a bus operator, ran services between London, south-west England and south Wales.

- Attempts to increase passenger numbers on the Eurostar trains through the Channel tunnel between London, Paris and Brussels will be boosted by the launch of two low-price tickets from tomorrow.

The Getaway Return costing £59 represents the lowest fare offered on Eurostar services and is available for travel between Monday and Thursday inclusive, provided at least three nights are spent away. Day return tickets will be available on Saturdays costing £69 in second class and £129 in first class, including meals and drinks.

UK NEWS DIGEST

Mitchell warns on new wave of IRA terrorism

Members of the Irish Republican Army might soon return to terrorism if they are not drawn into the democratic political process, former US Senator George Mitchell, head of the international body on the decommissioning of arms in Northern Ireland, warned yesterday. Following allegations last week of a return to violence by some IRA members, Mr Mitchell said there was a danger of a "fracture" within the organisation. "It seems clear that not all on the republican side favour the ceasefire and the potential for some elements to take direct and violent action does remain," he told the BBC.

Calling on all sides to "redouble their efforts", Mr Mitchell said he believed "the political parties that are closely associated with the paramilitary organisations on both sides - republican and loyalist - are committed to the process. It is important to draw them further into the democratic process by getting these negotiations going as soon as possible."

James Harding, Westminster

Fund managers eye Equitas

LLOYD'S

US and UK fund managers are gearing up to compete for a share of one of the largest contracts ever placed by an insurance company - the management of more than £10bn ($15.1bn) of assets which Lloyd's of London plans to transfer into a new recovery vehicle.

About 10 fund managers are expected to be selected in the next few months by Equitas, a reinsurance company into which Lloyd's plans to transfer liabilities outstanding on insurance policies sold before 1993. The move is the latest stage in the development of Equitas, which is expected early this week to announce its outline corporate structure.

Executives working on the reinsurer's formation envisage Equitas becoming a world expert in "running-off" old US pollution and asbestos-related liabilities. Lloyd's believes "spinning off" old-year liabilities could become a trend among insurers. Cigna, the US insurer, is seeking regulatory approval for a similar move. However, Equitas's future depends on Lloyd's securing agreement of Names - individuals whose assets have traditionally supported Lloyd's - for its ambitious recovery plan. *Ralph Atkins, Insurance Correspondent*

Power waste tax opposed

The UK electricity generation industry is pressing the government to amend the new landfill tax which could cost it £50m ($75.5m) a year and push up electricity prices. The tax, introduced in the 1995 Budget to provide incentives to reduce waste, is due to come into force next October and would charge power stations for disposing of the ash from coal-fired stations. The industry produces more than 10m tonnes of ash a year. Nearly half of this is sold to the construction industry and the rest is dumped in landfill sites where it will be taxed at the rate of £7 a tonne.

A spokesman for National Power, the largest power generator which accounts for about half the ash produced, confirmed that his company was in talks with the tax authorities to mitigate the effect of the tax.

The fledgling "energy-from-waste" industry, which receives subsidies to burn rubbish for power generation, is also pressing for relief from the tax. The environment department said industry concerns would be taken into account.

David Lascelles, Resources Editor

MANAGEMENT

The global snacks battle between UB and PepsiCo is highly instructive, reports Roderick Oram

When it comes to the crunch

"What really annoys me! That's the third Walkers' truck I've seen in 35 minutes!" Driving on the M25 is frustrating enough, but nothing adds to the aggro for one executive of United Biscuits like tailing trucks from its rival maker of crisps and snacks.

"It keeps me focused," he adds after the outburst. "I've got to find one of ours."

Truck-spotting is but a sideshow in the global strategic duel raging between UB and PepsiCo, Walkers Snack Foods' parent. PepsiCo wants to dominate the world's savoury snacks business; UB more modestly wants to make money in as many countries as it can.

Given that PepsiCo seems to define dominance as capturing a very large chunk of a product category's profits, the two ambitions may not be compatible. PepsiCo has achieved its aim in the US and is fast approaching it in the UK. Quite how UB makes a living in PepsiCo's shadow is a pressing issue.

Last year, UB quit the US – PepsiCo's home market under the Frito-Lay brand – and Spain after heavy losses, although it outsells PepsiCo two-to-one in Australia; PepsiCo is intensifying pressure on UB across Europe, particularly in the UK, UB's home market where its brands include McCoy's and KP.

"PepsiCo has thumped them over the head on the continent and kicked them in the teeth in the UK," says one London analyst.

The UK is crucial to PepsiCo for its large market and for the model Walkers is becoming for its other overseas operations. Its success is a warning to all food manufacturers with previously strong national market positions, and a vivid example of how to turn a humble commodity product into a strong brand.

The company is now the indisputable leader in UK standard crisps, it has become PepsiCo's largest foreign earner in food or soft drinks and has set its sights on the broader salty snack market.

It is the fastest-growing UK grocery brand, with its supermarket sales jumping 30 per cent to £221m last year, raising it up two places to third behind Coca-Cola and Nescafé.

Most crisp products have traditionally been sold on price. Yet Walkers, focusing on high quality and value-for-money, gives only a set volume discount to supermarkets and makes no own-label alternatives. It has poured cost savings into advertising and product development to stimulate consumer demand. With packet prices much higher than supermarkets' own brands it makes profits to boot.

The strategy is hurting UB. The British-owned company has tried to escape from the fray in standard crisps by moving upmarket into fancy flavours and textures with more expensive brands such as Phileas Fogg, McCoy's and Brannigans. Yet while Walkers' standard crisps are profitably growing volume at nearly 20 per cent a year, UB's upmarket crisp sales are flat.

"Our crisps are acceptably profitable but not growing volume because Walkers has made amazing inroads... some people have decided a good standard crisp will do instead," a UB executive admits.

In the late 1980s the companies stuck mostly to their home turf. PepsiCo's snack business derived most of its profits from the US, while 85 per cent of its limited foreign earnings came from Mexico. UB's main salty snacks effort abroad was its US attempt to add the products to its Keebler cookies.

But then they began to savour the latent potential elsewhere. No nation comes close to American consumption of 22 pounds of salty snacks per head per year. The British rank second but eat only half as much, the Dutch are a close third and the rest of the world far behind. To convert consumers in other countries to salty snacks, UB and PepsiCo began to buy and build up fragmented local businesses. They compete head-to-head in some dozen countries.

"In 1990 there was regional competition but nobody except UB could be an impediment to us globally," says Chris Sinclair, president of PepsiCo Foods & Beverages International, the group's overseas arm. "Today we don't feel any of them are an impediment. This is our market to develop."

Given the UK is the largest market outside the US and UB's home ground, PepsiCo had to find a way in. Its vehicle was its 1989, $1.35bn (£900m) purchase of Walkers and Smiths from France's Danone, which owned them briefly as part of the European assets it bought from RJR Nabisco.

Nabisco and Danone ran Walkers and Smiths as mutually competing companies. Walkers made high quality, high margin crisps with a 20 per cent share of the UK salty snack market. Yet, it was a regional brand with a narrow product range, poor trade relations and no innovation. Smiths was a national company with 19 per cent of the market through a vast portfolio. But its strategy was focused on price promotion and hence profits were low.

UB in 1989 had 22 per cent of the UK market and was applauded for its pincer-movement to bypass standard crisps. It had pushed down into own-label by profitably exploiting its low-cost, high-volume plants; it pushed up market by developing niche brands such as McCoy's and, later, buying Phileas Fogg.

From 1984-90, UK salty snacks grew 6 per cent a year. UB made the biggest market share gains, own-label and other small producers edged ahead to 27 per cent, Walkers/Smiths held its own and Golden Wonder, bought by Dalgety in 1986 saw its share slide to 12 per cent.

When recession struck in 1991, most crisp-makers locked into a downward spiral: weaker demand and rising costs prompted branded crisp price increases of 40 per cent in two years, but advertising, marketing and innovation were all reduced.

Faced with costs 70 per cent higher than Frito-Lay's and 35 per cent higher than an external UK benchmark, PepsiCo's response was to re-engineer Walkers/Smiths. Costs and complexity were cut to fund quality gains, innovation and advertising while prices were held.

The two companies were unified and Smiths and own-label phased-out. Seven plants were cut to six and nine distribution centres to five, 545 stock keeping units were reduced by 40 per cent and staff by 17 per cent. Walkers' prices were frozen between 1992-95 despite a 22 per cent rise in raw material costs. Productivity gains, however, have left its costs per tonne lower now than in 1992.

Efforts went into improving plants and processes with, for example, £20m spent on its main factory in Leicester. It is now the world's largest crisp factory producing about 50m bags a week.

At an extra cost of £12m a year the company in 1992 switched from plastic to foil bags to help keep air out (and thus crisps fresher) and lift the product's image. Last month, it began packing crisps in nitrogen-filled bags.

Walkers says the improved quality, particularly freshness, is noted by consumers and has helped increase sales. UB says others have closed the quality gap but admits the perception of Walkers' superiority lingers in some consumer minds.

To improve distribution, Walkers deployed a new sales force now totalling some 200 for the impulse retail trade in, for example, corner stores. It pushed Walkers nationally, first into southern England and more recently into Scotland where it has just wrested market leadership from Golden Wonder, which was recently bought by its management.

Advertising and marketing spend rose 25 per cent between 1992 and 1995 with, for example, "instant win" promotions in crisp packets. "To keep advertising, you need the revenues," says Martin Glenn, Walkers' marketing vice-president. Supermarkets receive only a standard, volume discount, but in return a healthy margin, strong advertising and consumer demand for Walkers crisps, he adds.

The tactic with small retailers, such as corner stores, is similar. A box of Walkers crisps cost them about £6.29 ex-VAT against, for example, a branded competitor's £5.50. Both sell at the same retail price so the retailer makes less profit per box. But the higher sales rate of Walkers means fresher crisps and a bigger return on the retailer's working capital.

The result of Walkers' strategy has been a jump in its salty snacks market share from 33 per cent to 44 per cent 1993-95. Volumes rose 18 per cent a year in a market growing by 5 per cent a year and trading profit margin expanded five percentage points. The company will not disclose profits but says they have more than doubled in three years. Walkers' goals for the next five years are to double its retail shelf space and output without adding another plant. It also intends to cut delivery times from 48 hours to eight.

Taking sales from competitors will help build volume but most growth will come from expansion of the snack category through product innovation and a better value-for-money proposition for consumers.

"We're seeking a bigger share of stomach," says Glenn. "Changing the snacking habits of a nation" is one of Walkers' slogans, aiming to entice consumers away from old staples such as biscuits.

For all the logic of the strategy and its success for Frito-Lay over the past decade, hubris may be Walkers' Achilles heel. Even by its own no-holds-barred style, PepsiCo and Walkers' comments about UB border on the inflammatory.

"UB didn't have enough scale and technology to compete when we finally got our act together," says Sinclair. "Our formula is very difficult to compete against unless you have some unique technology."

This is unduly harsh. UB knows how to make crisps even if it is not as deeply into potato breeding as its big rival. Excluding crisps, UB shares with Walkers leadership of salty snacks thanks to the likes of UB's Hula Hoops and Mini Cheddars.

What UB lacks, however is a credible crisp strategy. Downmarket, own-label crisps are chronically unprofitable. Upmarket, Walkers is encroaching on UB's brands despite UB protestations that they do not compete head-on.

Moreover, UB's are small brands which cannot fund advertising and promotion on Walkers' scale. "It is hard to compete in marketing terms with a brand of the sheer size of Walkers," a senior UB executive says. "We have to find an alternative."

UB is likely to focus on fewer brands but will not discuss the issue because its crisp strategy is under review. Meanwhile, the results are grim. In the first half of last year UB's UK crisp and snack sales fell 3 per cent in a market up 5 per cent and profits fell 36 per cent.

UB much prefers to talk about Australia where, confusingly, it owns a company called Smiths with 56 per cent of the snack market. It says it is meting out the same punishment to PepsiCo as it has suffered elsewhere.

PepsiCo, a distant number two to Smiths, has subjected its local operation to a Walkers' style revival. New products and advertising will hit the streets shortly, making Australia the battleground for 1996 between the two companies.

UB says PepsiCo is only catching up with its own initiatives there. "They can do what they like but we have a very distinct sales disadvantage... they will struggle to make money."

Favouring the speedy route to quality

ADRIAN FURNHAM

Does the speed with which a document is produced have anything to do with its quality? Being impulsive, busy and goal-orientated, I rarely do more than one draft. Certainly, I read over the word-processed output, but make few substantial changes.

The typos need to be corrected, the infelicitous phrases adjusted, the odd sentence inserted or deleted and an afterthought attached. But this may take as little as a tenth of the time required for the first, swiftly composed, sometimes even stream-of-consciousness, draft.

It seems to be implicitly assumed that redrafting is a slow and necessary business in the painful journey to perfection. Some people show colleagues various drafts, encouraging constructive criticism and attempting to incorporate their suggestions. If a camel is a horse designed by a committee, then this incorporative redrafting technique leads to the most anodyne and compromising of texts. In attempting to please everyone, no one is pleased.

Handel, I believe, composed *The Messiah* in three weeks. And there are many other famous examples of much lauded and applauded work (prose, poetry, fine art and music) being "dashed off". No amount of polishing will make a poor piece of furniture great. If the first draft is not good, little can be done. Start again completely afresh. If the first draft is good, don't fiddle with it.

Why, I asked a consultant friend the other day, did he always appear to ask his clients (remarkably surreptitiously) about the timing of their organisation's financial year-end. "Because of the spending curve," he murmured. He claims to have noticed that near the end of the financial year, spending departments seem eager to yield up their last penny. The under-spending departments know that when there is something left over it becomes more difficult to justify a similar budget in future, let alone an increase. This is presumably because departments are in competition for scarce resources and parsimony and prudence are not generally rewarded. On the contrary, they are punished. To him who hath his budget spent, however, shall more be given.

So, six to eight weeks before the end of the financial year my friend contacts all his main clients and floats the idea of a quick project. He says there seems to be a far greater probability of selling business at this time of the year.

The other good time is soon after the budget has been approved. With lots of money in the bank, managers feel they can splash out on that new technology or consultancy they want or need.

The "U curve" is, of course, an extrapolation of aggregated data, and is far from smooth. But it makes sense. It does seem a pity that organisations can't find a way of rewarding good financial management. Imagine making next year's budget a multiplicative function of the money prudently saved in this. It may harm my friend's livelihood, but it should please both the share- and stake-holders.

I read recently of a surgeon who likes to operate to music. Presumably, one can always choose appropriate music to fit the complaint – Handel's *Water Music* for those suffering from bladder problems; the *1812 Overture* for excessive flatulence; Haydn's *Unfinished* for plastic surgery; the *New World Symphony* for childbirth; and Fingal's *Cave* for stomach ulcers. In this instance, the surgeon argued that music improved his concentration. But "music while you work" appears to have gone out of fashion.

Some people have radios in their offices, many radios in their cars, and the way they use them explains the demise of music in the workplace. Music does improve concentration in relatively simple, mechanical and repetitive tasks, hence music in factories. However, if the work is inherently complex and varied, music (indeed sounds) of any sort tend to have the opposite effect.

Extroverts seem to do better than introverts with background music. Being chronically under-aroused (like an engine cutting out) an extrovert's whole life is dedicated to finding stimulus fixes. Their impulsiveness, sociability and excitability is all a function of their need for stimulus; while introverts who are over-aroused seek the precise opposite. Music is just another stimulus. Extroverts concentrate longer on mundane, mechanised tasks with music, and their performance in complex, concentration-demanding tasks is less inhibited by music than introverts.

So, if you run an assembly plant employing extroverts, you should seriously consider the idea of introducing a good sound system. But if you have introverted workers, ban radios and keep noise levels down.

Perhaps that is why the latter group is so opposed to open-plan offices.

FINANCIAL TIMES
COMPANIES & MARKETS

Monday February 5 1996

MARKETS THIS WEEK

PHILIP COGGAN:
GLOBAL INVESTOR
Given that economists have proved pretty unsuccessful in predicting growth rates – and economic turning points – is it worth global investors paying attention to GDP forecasts? The evidence suggests, conversely, that economic policymakers should probably be paying attention to the stock market. Page 18

STEPHANIE FLANDERS:
ECONOMICS NOTEBOOK
There has been a big decline in the US net national savings rate since the 1950s. But rather than being the fault of "big government" and increasing public borrowing, growing consumption by the elderly – paid for largely by Uncle Sam – has lain behind the falling rate. Page 18

BONDS:
Since 1993, the maximum maturity on Philippine government bonds has increased steadily from one year. The first 10-year bond is expected soon. Page 20

EQUITIES:
According to one arbitrage dealer, the London market is "is like a coiled spring at the moment. It could pop at any time". After last week's US interest rate cut, Wall Street's focus will turn back to corporate earnings. Page 19

EMERGING MARKETS:
Turkish stocks have gained more than 20 per cent in dollar terms since the beginning of this year. But foreign brokers in Istanbul are growing perplexed over the market's rapid rise. Page 19

CURRENCIES:
Figures due this week are expected to confirm the weakness of the German economy and to lead to another fall in interest rates. US trade statistics on Wednesday are likely to show further improvements, strengthening the dollar. Page 19

COMMODITIES:
After threatening to test the $420 a troy ounce barrier, gold prices ended the week at $415.40 an ounce. But everything remains to play for. Page 18

INTERNATIONAL COMPANIES:
Mr Gil Amelio today assumes the role of chairman and chief executive of Apple Computer, the troubled US computer group. The former semiconductor industry executive, who has replaced Mr Michael Spindler, is taking on one of the most visible jobs in the US high technology sector. It also promises to be one of the most difficult. Page 17

UK COMPANIES:
Granada, the television and leisure group, has appointed Lazard Brothers to handle the disposal of £2.1bn ($3.23bn) of Forte assets following its successful takeover of the hotels company. Page 16

STATISTICS

Analysts forecast provisions of up to 50% of exposure to debt-laden Anglo-French project in annual results

Banks prepare to take big Eurotunnel hit

By Geoff Dyer and William Lewis in London

UK banks will start to show the pain of their involvement with Eurotunnel this month, when they are expected to provide for up to 50 per cent of their share of the company's £8bn debt.

The four main UK clearing banks could make total provisions of more than £300m ($460m) on their exposure to Eurotunnel when they report full-year results over the next four weeks, according to analysts.

National Westminster and Midland, which are estimated to have the biggest exposures among UK banks of about £250m each, are forecast to take hits of £80m-£125m. Barclays comes next, with analysts pencilling in a £30m-£60m provision, and then Lloyds, which is thought to have the smallest exposure, taking a £25m-£50m charge.

Several analysts, including Mr John Aitken of UBS, put the level of provisions at about 50 per cent, while others suggest a figure nearer 30 per cent.

Across the Channel, the Commission Bancaire, the French banking regulator, is believed to have advised French banks to make 30 per cent provisions against their exposure to Eurotunnel.

Any provisions would come at a delicate time, as Eurotunnel is expected to announce soon whether it is to ask a French court to appoint a mediator to handle negotiations with its banks.

Some UK banks are worried that if Eurotunnel seeks to resolve its crisis through a French court process, this would limit the Bank of England's role.

Eurotunnel is also due to make a statement to shareholders about progress in refinancing negotiations with its 225 banks. It had hoped to have a plan worked out by the end of January.

The banks are understood to be under pressure from their auditors to make provisions, as Eurotunnel has effectively been a non-performing loan since it suspended interest payments in September.

In Eurotunnel's case, auditors will also be guided by the secondary debt market, where recent trades have been at prices of about 35p in the pound, according to traders, although many bankers argue that the market is too illiquid to be used as a benchmark for the value of the debt.

Analysts point out that it is not uncommon for banks to over-provision, especially when they have the cushion of strong earnings, as is the case for 1995. Indeed, several banks are expected to have benefited from releasing provisions made against loans to London's Canary Wharf development.

Some bankers believe, though, that large provisions are unlikely at the moment as they would ease pressure on Eurotunnel. According to one: "It would be like shooting yourself in the foot and would create a much harder negotiating position for the banks."

Mr John Leonard, bank analyst at Salomon Brothers, argues: "If banks make provisions, it means a company cannot use the threat of non-payment so effectively."

Some bankers also say that it would be unwise to make provisions now because the eventual shape of the company's financial restructuring is unclear. "Until you have a plan, you cannot assess accurately what that amount should be," says one.

The unknown factor in the provision estimates is the Ecu 1bn ($1.3bn) loans made to Eurotunnel by the European Investment Bank, the Luxembourg-based EU development bank, which were guaranteed by a group of 60 banks.

When Eurotunnel defaulted, the EIB called in the letters of credit, which meant the banks had to take on the loans. The identity of the banks and sums involved are unknown, but it is believed the main UK banks had to increase their exposure.

Hanson considers special payout to win over investors

By David Wighton in London

Hanson is considering offering shareholders a special dividend of up to £600m ($906m) as it attempts to build City support for its proposed four-way demerger.

Lord Hanson, group chairman, is believed to have floated the idea following the disappointing stock market reaction to the demerger proposal last week.

But some City observers expressed doubts that the board would agree to such a move. "Hanson can't justify its current level of dividends," said one analyst. "It already has £5bn of debt and advance corporation tax problems. A special dividend would just make matters worse."

Hanson's shares have fallen 7½p to 197p since the announcement, partly because this included an implicit warning that shareholders would receive lower dividends after the demerger.

"Adding a special dividend now would only reduce the successor company's dividend capacity," said one analyst.

Senior executives who will run the demerged companies are likely to resist any move which would increase the amount of debt they inherit. Companies such as Eastern, the UK electricity distributor which will form half of the new energy group, will argue they need strong balance sheets to take advantage of investment opportunities.

Under the current plan, it is believed the energy group would take on about £375m of net debt. The building materials group would have a similar level, which may reassure holders of Hanson's bonds which it will inherit.

The cash-generative Imperial Tobacco would take about £750m of debt, with the remaining £1.5bn allocated to the US-based chemicals company.

Hanson has close to £5bn in net debt but has announced plans to cut that by £2bn through disposals this year.

The simplest of the demergers will be Imperial Tobacco, which Hanson believes could be spun-off by the summer. There has been speculation that Imperial might attract a trade buyer before then. But analysts believe it is unlikely the premium offered would be high enough to offset the capital gains tax bill Hanson would face on such a sale.

An attraction of demerger is that Hanson believes it can persuade the tax authorities it is being carried out for industrial reasons rather than to enhance shareholder value and so should not be subject to CGT.

The more complicated chemicals demerger is pencilled in for September, while the final split of energy from building materials is scheduled for late 1996 or early 1997.

Building materials, which will retain Hanson's listing, will be chaired by Lord Hanson until his retirement next year. He is expected to be succeeded by Mr Christopher Collins, vice-chairman of Hanson.

MTV Europe in video deal with BMG

By Alice Rawsthorn in London

MTV Europe, the music television channel, has agreed after months of haggling, how much it will pay BMG, one of the world's largest record companies, for its music videos.

Negotiations had been going on for months over the issue of payments to BMG, a subsidiary of Bertelsmann, the German media group, for the videos it supplies to MTV, one of the most powerful promotional vehicles in the music market. BMG owns 200 record labels worldwide, including RCA and Arista, featuring dozens of best-selling artists such as Take That, TLC, Whitney Houston and Annie Lennox.

Mr Arnold Bahlmann, senior vice-president of BMG Entertainment International, said the negotiations with MTV Europe had "not been easy".

MTV, part of Viacom, the US entertainment group, is a tough negotiator which has clashed with BMG and other record companies over the sensitive issue of payment. It agreed the basis of a deal with BMG in November but has been thrashing out final terms.

The details of the deal are shrouded in secrecy, as are all MTV's agreements with record companies. However, it covers Europe, Africa and the Middle East, and includes provision for BMG and MTV to collaborate on recording and merchandising ventures.

BMG record labels feature singer Annie Lennox (above)

BMG's talks with MTV were triggered by a European Commission investigation into the old system whereby the music industry negotiated collectively with MTV in Europe.

Record companies have always negotiated individually with the original MTV service in North America, but have long complained that MTV exploits its promotional power to drive down the cost of videos. When MTV Europe was launched in 1987, they insisted on dealing with it through a collective body.

MTV objected and lodged a formal complaint with the Commission, claiming the collective process of negotiation was anti-competitive. The commission decided in MTV's favour and ordered the large record companies to agree individual deals. Smaller independent labels can negotiate collectively.

BMG is the fourth leading record company to have struck a video payment deal with MTV Europe in the past 18 months. Sony, PolyGram and EMI have reached similar agreements. MTV Europe has not concluded deals with Warner and MCA.

Promise of action from new CFF head

By Andrew Jack in Paris

The newly appointed chairman of Crédit Foncier de France, the troubled property lender, plans to move swiftly to sell assets and find a new financial partner to help recapitalise it.

Mr Jérôme Meyssonnier, the current head of Banque La Hénin who was nominated by the government to his new post last week, said he planned to begin selling property held by Foncier "as soon as possible".

He also told the FT that Foncier had inadequate funds and needed to find a new shareholder to help support the institution into the future.

He said his priorities were to develop a close relationship with staff, build up the management team and by March be drawing up plans to reorganise the institution.

Mr Meyssonnier is due to begin work as "governor", or chairman, of Foncier today, less than a week after the board meeting at which the state abruptly announced his appointment in place of Mr Jean-Claude Colli. The unilateral decision by the government, without consulting the CFF board, helped trigger resignation threats from other directors.

It is likely that one of Mr Meyssonnier's early challenges will be to discuss changes in Foncier's legal status so that the French government is no longer in charge of nominating future governors.

This week: Company news

ERICSSON

Swedish group to buck the downward trend

Ericsson, the Swedish telecommunications equipment supplier, has predicted it will buck a recent trend of weaker profits in the fast-growing mobile telephony sector when it announces its 1995 full-year results on Thursday.

Investors will be hoping for no nasty surprises, after gloomy reports from Motorola of the US and Finland's Nokia, Ericsson's main rivals in mobile phones, sent the three groups' shares tumbling in the final months of 1995 and in the early days of January.

An average of analysts' forecasts puts Ericsson's pre-tax profits for 1995 at SKr7.8bn ($1.1bn), up 40 per cent from the 1994 surplus of SKr5.6bn. Ericsson says fourth-quarter profits will be ahead of the same period in 1994 – in contrast to Motorola, the top seller of mobile handsets, and against a warning of falling profits towards the end of 1995 by Nokia.

Ericsson, the leading mobile equipment supplier, has been at pains to distance itself from its rivals. It insists it is protected from a price and growth squeeze in the US, the world's biggest mobile market, because of its much smaller exposure than Motorola to the old analogue mobile technology that dominates in the US.

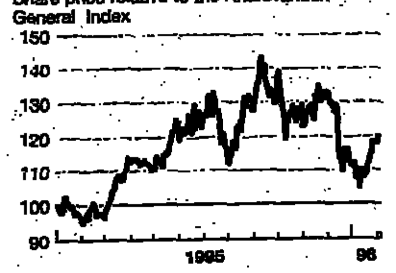
Nokia has said its problems in the mobile sector stemmed from logistical problems it has encountered in keeping up with demand.

Ericsson will emphasise that rapid growth continues worldwide in mobile telephony. The number of global subscribers grew by 30m in 1995 to 85m. Much of this growth is in digital systems, in which Ericsson is strongest.

But investors have shown in the past six months they are wary of the ability of Ericsson and its rivals to sustain the rapid profits growth of the past three years. Signs of economic slowdown in big markets such as France and Germany are scarcely reassuring.

Ericsson

Share price relative to the Affärsvärlden General Index



Source: FT Extel

METALLGESELLSCHAFT

Steep rises highlight return to normality

Metallgesellschaft, the German industrial and trading company that once teetered on the brink of collapse, has re-emerged as a rather normal company. Today, figures for the fiscal year 1994-95 should pay tribute to an unexpected turnround, a performance that is reflected in a steep rise in the share price.

MG last year forecast turnover of DM17.5bn-DM18bn and pre-tax profits of DM150m ($100m), and that is broadly echoed by German analysts. Most expect another steep rise, of at least 100 per cent, in the current financial year.

Vereinsbank Research believes the company has changed from an "impenetrable conglomerate into a clearly structured corporation".

Its profit forecast, which comes in at the upper range of estimates, is for a pre-tax profit of DM180m in 1994-95, rising to DM350m in the current financial year and to DM450m in 1996-97.

The number of subsidiaries and minority interests has shrunk from 700 to 150, and the number of employers went down by almost a third to 23,000, a consequence partly of restructuring and a series of asset sales, which yielded about DM2.5bn.

Debts have fallen by about DM5bn over two years to about DM1.6bn, while liquidity is up, at DM2.5bn.

No dividend is expected for 1994-95 and 1995-96.

OTHER COMPANIES

Thai power short list generates some heat

A host of Thai companies, including Banpu, Lanna, Loxley, Saha Union and Sahaviriya Steel, will tomorrow receive notice as to whether they have been short-listed to participate in the Thai government's independent power producer programme, the largest of its kind in Asia. Thirty consortia, each a joint venture between a Thai company and a foreign partner experienced in electricity generation, submitted bids last June.

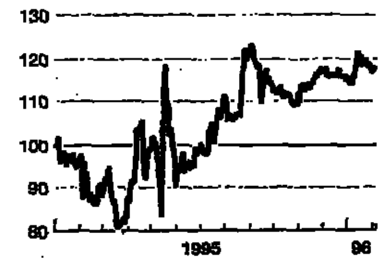
Those companies which make the short-list are not guaranteed a contract to build, own and operate an electricity generating plant, but will be given the go-ahead to negotiate an agreement with the state-owned Electricity Generating Authority of Thailand (Egat). Companies given the go-ahead to participate would be assured of a steady stream of revenue with an internal rate of return of 12-15 per cent, brokers said.

■ **Minnesota Mining & Manufacturing's (3M):** Fourth-quarter results, due today, will be high on the list of those the company would prefer to forget. Last month, it said earnings would be lower as a result of inventory reductions by its customers in December. Analysts have pencilled in 75 cents a share before charges, compared with 79 cents.

■ **PepsiCo:** The US soft drink and fast food group has been producing good results in recent months. However, it has a hard act to follow when it reports fourth-quarter results tomorrow. Profits jumped 16 per cent in the same period a year earlier. Analysts are predicting a modest 6 per cent rise in earnings to 68 cents a share, making $2.46 for the year.

Metallgesellschaft

Share price relative to the DAX index



Source: FT Extel

■ **Preussag:** The German industrial group, which is the country's third largest steelmaker, announces full results for 1995 on Thursday, with further forecasts about the shaky state of the international steel market.

■ **Bank of East Asia:** Hong Kong's third-biggest listed bank is expected to unveil net profits of HK$1.3bn-HK$1.4bn (US$182m), excluding property sales, when it reports annual results on Thursday. This compares with HK$1.39bn in 1994, which included an exceptional gain of HK$423m. Stripping out the exceptionals, the market is looking for an improvement of 15-20 per cent at the operating level.

Companies in this issue

Granada moves on £2bn Forte sale

By Scheherazade Daneshkhu, Leisure Industries Correspondent

Granada, the TV and leisure group, has appointed Lazard Brothers to handle the disposal of £2.1bn of Forte assets.

Lazard advised Granada during the £3.9bn hostile bid for the hotels group, along with BZW Securities and Hoare Govett.

The disposals include 103 Exclusive and Meridien hotels, with a book value of £1.6bn and the 68 per cent stake in the Savoy Hotel group, with a market value of about £200m.

It also includes the 26 Welcome Break motorway service areas, which Granada is selling for monopoly reasons along with eight TraveLodge hotels on the Welcome Break sites. Whitbread, the brewer and leisure company, is believed to be the front-runner for the Welcome Break acquisition.

Last week Granada and Lazard Brothers began detailed examination of Forte's books in preparation for an auction of the Exclusive and Meridien hotels. A revaluation is not expected following the one carried out by Forte and published in the final defence document on January 2.

Granada wishes to sell to one buyer, partly for tax reasons, but has said they will go to the highest bidder.

Interest parties, which are understood to include Sir Rocco Forte, Forte's chairman, will be contacted in two to three weeks time.

Mr Charles Allen, Granada's chief operating officer who is now installed in Forte's High Holborn headquarters, said there were four serious trade buyers and two financial buyers.

The trade buyers, none of whom are thought to be interested in the whole package, include ITT Sheraton, which is seeking hotel assets in preference to management contracts, and Marriott International, which recently said it had ruled out the idea of an asset swap with Granada but was still interested in some of the hotels.

Accor, the French hotels group, is interested in Meridien and Bass, the brewer and hotels company which operates Holiday Inn, is also thought to be in the running for Meridien.

Potential financial buyers include Kohlberg Kravis Roberts, the US leveraged buy-out specialist.

ITT Sheraton is also thought to be eyeing the Savoy stake. However Prince Al Waleed, the Saudi investor, is believed to be the most likely buyer.

The Prince holds 25 per cent of the Canada-based Four Seasons hotels group for which Mr Ramon Pajares, managing director of the Savoy Hotel group, was a long-serving employee. Although negotiations have not yet begun, the Prince has registered his interest.

Germans buy City HQ of Lloyd's

By Joel Kibazo

Lloyd's of London yesterday confirmed it had sold its headquarters in the City of London to Deutsche Sparkassen Immobilien Anlage (Despa), a German property fund.

Despa is believed to have paid about £180m for the building, although Lloyd's refused to confirm the price or release details of the sale ahead of Wednesday's meeting of the the Council of Lloyd's, the market's governing body.

Mr David Rowland, the chairman, will be contacting other council members today to seek approval for the deal.

The 360,000 sq ft building, designed by Sir Richard Rodgers and famous for its steel exterior and glass wall-climb lifts, was completed 10 years ago at a cost of £180m.

Lloyd's put its headquarters on the market last November as part of its £5.9bn survival package announced last May. It said it had held talks with four interested parties, including two from the UK, before agreeing the Despa deal. A provisional contract was signed last Wednesday.

Lloyd's is to remain in the building as the sole leaseholder and was keen to stress, "we will continue to occupy the building in exactly the same way we have been doing."

As well as the insurance market, the building is also home to many insurance brokers, underwriting agents, and lawyers. Several banks also have liaison offices in the building.

Steel pipes on the building's exterior are currently undergoing repairs for rust. The work is expected to cost about £1m, although Lloyd's said yesterday, "we still expect to recover those costs from one or more parties involved in the building's construction."

Despa already owns property in London and last year bought the headquarters of John Lewis, the UK retail group.

Argentaria names co-ordinator for global share offer

By Tom Burns in Madrid

Argentaria, Spain's state-controlled banking group, has named Morgan Stanley of the US to co-ordinate the third phase of its privatisation process in a global offering expected to commence early next month.

Patrimonio del Estado, the finance ministry's portfolio company, will reduce its current 50 per cent Argentaria shareholding to 25 per cent. At present market prices, the planned disposal would be worth Pta166bn ($1.3bn).

Although Argentaria was a strong candidate for further privatisation this year, the speed with which the government has decided to tap the markets comes as a surprise. It is believed that the subscription period for Argentaria shares could begin as early as March 4.

Analysts believe the government has decided to act quickly to gain maximum benefit from the excitement generated by the sale of 11 per cent of Repsol, the oil, gas and chemicals group, which will be completed today when the final issue price is fixed following the close of the New York market.

The Repsol disposal, which is worth some $1.1bn and will reduce government ownership of the energy group to 10 per cent, has been eight times oversubscribed in the domestic retail tranche and reportedly 12 times oversubscribed in its UK tranche.

Argentaria's appointment of Morgan Stanley was expected. The US group co-ordinated the first two tranches in May and November 1993, when the successive sales of 25 per cent of the banking group raised Pta120bn and Pta170bn.

As in those offerings, at least half of the 32.3m Argentaria shares that Patrimonio plans to sell will be offered to the domestic market, with a strong weighting towards small investors.

The international tranches will be principally directed at US and UK institutions, which already account for most of the 23 per cent of Argentaria that is foreign-owned.

Argentaria shares closed last Friday in Madrid at Pta5,290, their highest value this year, representing an accumulated rise of 5.8 per cent since the start of January. But they are still well below the Pta6,050 price of the Argentaria II issue.

Argentaria's chairman, Mr Francisco Luzon, said at the end of January that the banking group's share price was "at least 25 per cent under-valued". Mr Luzon, who announced an 11.7 per cent increase to Pta74.2bn in Argentaria's attributable net profit for 1995, predicted a further 15 per cent profit rise this year.

PPP Healthcare to restructure

By Roger Taylor

PPP Healthcare, the UK's second largest health insurer, yesterday confirmed that it was restructuring. Its aims are to give it greater access to capital while at the same time making it, as far as possible, immune to hostile takeover.

Mr Jonathan Russell, director of public relations at PPP, said: "We don't want to make the mistake that other organisations have made by going public leaving themselves vulnerable to a takeover."

PPP is to abandon its status as a provident institution, and to become instead a public limited company, having rejected the idea of flotation.

Most of the large health insurance companies are provident institutions, including Bupa, WPA and BCWA. Bupa said yesterday that it would not be changing its status.

Under its current structure, PPP has no owners. It is a company limited by guarantee, with a board of governing members who act as "guardians of the company".

After the restructure, PPP will become a public limited company, able to raise cash by selling its shares. Initially, the entire share capital will belong to PPP Healthcare Foundation - a company limited by guarantee. The foundation will retain the board of governing members. Any takeover of PPP would have to be unanimously approved by this board, making it extremely unlikely.

A new charity will be established, PPP Healthcare Medical Trust, which will be the beneficial owner of the group alone entitled to receive any distribution of the its profits or assets.

PPP rejected the option of a full stock market float because it could too easily have led to a takeover. Mr Russell said: "Look what happened to TSB. They gave up mutual status and floated, leaving themselves wide open to takeover."

The group also considered the option of becoming a wholly owned subsidiary of a charitable trust, but rejected this in the light of last year's takeover of Wellcome by Glaxo. Wellcome was largely owned by a charitable trust.

PPP wants access to new capital to help it pursue a range of possible new strategies to improve its distribution and its control over costs of providing medical care.

To improve its control over medical costs, PPP is considering greater involvement in the ownership and management of hospitals.

Jim Johnson (left) and Nigel Rogers, finance director: float planned before the end of April

Stadium heads for market

Stadium Group, which makes plastic and electronic components, is planning to float on the stock market before the end of April with an expected value of about £30m, writes Geoff Dyer.

The Hartlepool-based company hopes to raise £10m from the exercise to reduce its £7m of borrowings and to fund investment plans and possible acquisitions.

Mr Jim Johnson, managing director, said the float would also provide a "partial exit" for the group's two main shareholders - the Wiseman family which founded the company in 1911 and which owns 70 per cent of the shares, and Electra, the venture capital company that invested in Stadium in 1981. Its 20 per cent stake is its oldest unlisted investment.

Stadium started life importing bicycle accessories from France. Its main businesses now are making plastic injection moulds, for products such as Black & Decker power tools and Nissan cars, and producing printed circuit boards and transformers.

A new management team was appointed in 1989 to what was then a lossmaking company. Pre-tax profits, which have risen every year since 1990, were £4.04m (£3.01m) in 1995 on sales of £44.8m (£37.4m).

NatWest Wood Mackenzie is acting as broker to Stadium.

Talks to save Fochi enter a crucial week

By John Simkins in Milan

The future of Italy's second biggest energy sector contractor, the Fochi group, is on a knife-edge as negotiations to save it from liquidation enter a crucial week.

The Bologna-based group has debts of L1,200bn ($760m). Last year, under Italian insolvency regulations, commissioners were appointed by the industry minister in an attempt to rescue it.

A L150bn financing package was arranged to tide the group over while a restructuring plan was devised by Mediobanca, the Milan merchant bank, but these funds were exhausted at the end of last month.

Creditor banks were asked to arrange a further L100bn credit line while the Mediobanca plan, which was finally presented last month, could be examined. But the financing fell foul of the European Commission, which warned that the government guarantees on which it depended would contravene competition laws.

As Fochi no longer has funds to pay its suppliers or 13,000 employees, the commissioners are now negotiating with its seven leading creditor banks for a L15bn short-term loan.

However, it is understood that by the weekend only four had given their consent. The others raised objections to the loan, which would be secured by tax refunds due to the company and could only go ahead if all seven banks agreed.

The group's problems spring from a period of rapid growth financed by bank loans which made it the country's biggest manufacturer of plants for the oil and petrochemical industry after Saipem, controlled by Eni. Creditor banks are now the major shareholders in the company, which is quoted on the Milan stock market.

Ironically, the prospect of liquidation comes as the group, which has 80 subsidiaries and extensive operations in Asia and the Middle East, has begun to show dividends from changes made by its new chief executive, Mr Giorgio De Panno.

Orders have improved and operating losses, which totalled L104bn in the first six months of 1995, were reduced to L15bn in the second half.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Tomkins (UK)	Gates Rubber (US)	Auto & industrial Components	£927m	Stock + debt agreement
SFAC (France)	Trade Indemnity (UK)	Insurance	£177.3m	Credit insurance buy
Philip Morris (US)	ZPT Krakow (Poland)	Tobacco	£150m	Privatisation deal
Hanson (UK/US)	Desimpel Kortemark (Belgium)	Building materials	£125m	First European public offer
Unilever (UK/N'lands)	Lyons Irish (Ireland)	Tea	£78m	Allied Domecq disposals
WestLB (Germany)	Panmure Gordon (UK)	Stockbroking	est£30m	Sale by NationsBank
Ashtead (UK)	McLean (US)	Plant hire	£19.6m	Aggressive phase continues
Harrisons & Crosfield (UK)	Daniel Products (US)	Specialty chemicals	£19.4m	Further buys planned
LVMH (France)	Loewe (Spain)	Luxury goods	£97m	Taking full control
Kingston Communications (UK)	Cartelecom (US)	Telecoms	£1m	Testing move

MAI set to fund Rapture

By Raymond Snoddy

MAI, the broadcasting and financially services group, is likely to provide the main financial backing for the launch of Rapture TV, a new cable channel aimed at teenagers.

The channel, which is due to launch in the spring, is the creation of Kudos Productions, the independent television company and RocketScience, the media buying group, and plans 2,000 hours a year of original programming.

In a letter to Daiwa Europe, which is arranging the financing for the new channel, Mr Roger Laughton, chief executive of MAI Media, says it is likely that "MAI will be the principal major public company partner to Kudos and RocketScience."

The aim is that if the main MAI board approves, the ITV company would finance the setting up and development of Rapture in return for "a significant shareholding."

If the investment goes ahead, MAI, which owns Anglia Television and controls Meridian, the south of England broadcaster, will be the latest ITV company to move into the cable and satellite television market.

Last week, Carlton Communications purchased the SelecTV cable channel for £5.2m, while the Granada Group, in a joint venture with British Sky Broadcasting, has announced that it is launching nine specialised satellite channels devoted to topics such as health and motoring.

Rapture would specialise in themes such as entertainment and education for young people.

Mr Laughton said in his letter to Daiwa that he found the focus on education and related issues in the Rapture plan "one of the significant aspects of the positioning of this channel."

Norcros to separate planned sales

By Patrick Harverson

Norcros, the rapidly-shrinking industrial conglomerate, is negotiating to sell its printing and packaging division in separate parts.

The group had originally hoped to find one buyer for the entire division, which would have allowed a quick sale before the end of its financial year in March. But the diverse nature of the four printing and packaging businesses that make up the division and the lack of synergies between them has dissuaded potential buyers from acquiring it whole.

Now, Norcros believes it will be able to get a better price by selling the different components of the division to two or possibly three different trade buyers. Analysts expect the group to raise between £100m and £125m from the disposals.

When the sales are completed, the group will be left with three related businesses - ceramic tiles, bathroom showers and adhesives - a far cry from its days as a conglomerate with interests in businesses as diverse as property, car dealerships and building materials.

Norcros is conducting talks with half a dozen potential buyers of each business, and with much of the due diligence having been completed it hopes to conclude the deals by the time the annual results are reported in June.

Although several venture capital groups are involved in the talks, Norcros has ruled out selling any of the businesses to their managements.

The poor performance of the group in the past few years and the rapid decline in its profitability and share price has angered shareholders, and the management is keen to deliver on its promise to return part of the money raised from the sale of the businesses to shareholders.

About half of the proceeds from the disposals will be used to pay off the group's debt, and Norcros hopes to return the remainder - which it believes could be worth up to 30p a share - to shareholders.

Although the management says it is considering either a special dividend or a share buy-back, it favours the latter course for tax reasons.

Positive reaction to slimming

Norcros's restructuring is almost complete. **Patrick Harverson** reports

When Norcros concludes the sale of its printing and packaging businesses some time this summer, its journey from a large diversified industrial conglomerate to a small building materials manufacturer will be complete.

The journey has been a long and painful one for both management and shareholders. Between 1987 and late last year the market value of Norcros fell from £600m to a low of £90m as the recession, the slump in the property market and a series of ill-judged diversifications led to heavy losses and forced the group into selling chunks of the business.

Its beleaguered management, with Mr Michael Doherty as chairman, believes Norcros has finally turned the corner. The shares have shown some recovery in the past few months, restoring capitalisation to a more respectable £155m.

With the sale of the printing and packaging division imminent, the group is concentrating on its core business of manufacturing ceramic tiles, adhesives and bathroom showers for building contractors and DIY retailers.

It will have turnover, based on last year's figures, of about £380m, of which tiles will account for 60 per cent, with the remainder split evenly between adhesives and showers. Profits in 1995, excluding printing and packaging, were £11m, down from £20m the previous year.

Part of that decline could be blamed on H&R Johnson, the UK tiles business. Although it has about 25 per cent of the UK wall tile market and a growing presence overseas, strong foreign competition and manufacturing inefficiencies have seen its margins shrink in the last few years from 10 per cent to barely half that figure. Norcros's chief task is to improve their performance.

To restore margins, Johnson is undergoing a restructuring. The workforce has already been reduced from 2,500 five years ago to about 1,000 and the number of factories reduced from five to two, all without sacrificing output. Now Johnson is introducing more automation and switching from the old "twice-fired" tile manufacturing process to the quicker and cheaper "once-fired" process.

Norcros admits that the changes are long overdue and will take time to complete. "The business lost its way in the 1980s when we went to sleep. We can't put that straight overnight," said Mr Doherty.

The tiles business is also putting more effort into building overseas sales to counteract the flat UK market, and improving its service to its customers - the DIY sheds, contractors and independent retailers.

Fortunately, the rest of the group requires less work. Changes have already been introduced at Triton Showers, where manufacturing has been modernised and integrated into a single facility, and production inefficiencies eliminated.

The adhesives business has required little restructuring and the outlook is good thanks to export growth. The only possible change will be one of ownership - the two adhesive companies are jointly owned with BTR, the UK conglomerate, but logic dictates that Norcros will soon buy out its partner.

Once the sale of printing and packaging is completed and the tiles division reorganised, Norcros may be in a position to pay a dividend for the first time since the interims in November 1994.

That should help brighten the mood of shareholders, although they are already feeling more positive according to Mr Doherty. Norcros had met eight of its 10 largest institutional shareholders recently and relations were improving. "I won't say they're ecstatic but they're much more relaxed and understanding than six months ago."

600 Group director resigns

By Motoko Rich

Mr Simon Powell has resigned as finance director of 600 Group, the machine tool and mechanical handling company.

The company said on Friday that Mr Powell's resignation, which is effective immediately, was unconnected with the group's trading performance.

Pre-tax profits in the six months to September 30 rose to £4.83m (£2.47m), including a credit from the pension fund of £1.8m (£1.4m).

Mr Colin Gaskell, managing director, said he could not comment further on Mr Powell's departure because it was subject to a confidentiality agreement.

Mr Powell, 53, was appointed group finance director in 1989. He was previously financial controller. Mr Gaskell was appointed managing director in 1990. It is believed that Mr Powell, 53, may have felt under pressure because of "stylistic differences" with Mr Gaskell.

The shares fell 2p to 153p on Friday.

COMPANIES AND FINANCE

Apple to test Amelio's transformation skills

Louise Kehoe on the man brought in to revive the fortunes of the personal computer pioneer

Mr Gil Amelio is in the hot seat. Today, as he assumes his new role as chairman and chief executive of Apple Computer, the former semiconductor industry executive is taking on one of the most visible jobs in the US high technology sector. It also promises to be one of the most difficult.

He replaces former chief executive Mr Michael Spindler, whose departure was confirmed by Apple late on Friday. Mr Amelio is also taking on the role of Apple chairman, giving him a free hand to set the company's new direction.

Mr Mike Markkula, who helped finance Apple's formation 19 years ago and remains its largest shareholder, has stepped down as chairman to become vice-chairman.

Mr Amelio, a member of Apple's board for 14 months, has had an insider's view of Apple's mounting problems: the erosion of its technology edge by Microsoft's Windows 95 program, the decline in its market share and the repeated failure of its management to correctly forecast demand.

As the only board member with recent management experience in the high technology industry, he became the obvious candidate to take over as shareholder pressures mounted and customers began to lose confidence in the company.

But is Mr Amelio the right man for the job? Can he revive the fortunes of a personal computer industry pioneer that became an icon of American entrepreneurship as it grew from a garage shop into a multi-billion dollar company?

This is not Mr Amelio's first "rescue mission". As chairman and chief executive of National Semiconductor, a Silicon Valley chipmaker, he restored the company to profitability after years of heavy losses.

When he joined National in 1991, the chipmaker was "teetering on the brink of bankruptcy, with cash on hand equal to only three days of receivables" he says in his recently published management book*. Today, National is profitable and growing, albeit at a slower rate than some of its competitors.

His performance at National won Mr Amelio a reputation as a "turnaround manager", but he detests the label. "A turnaround manager is," he says, "an executive who follows a ruthless formula . . . slashing all budgets . . . laying off half or more of the work force." He claims instead to be a "transformation manager [who] looks for long-term solutions".

This may be heartening for Apple's 15,000 employees, who fear the axe may fall soon and hard. Mr Amelio can take tough decisions – at National, he laid off large numbers of employees – but he is a popular leader and his resignation from National left company employees shocked and upset.

Moreover, National has not been that weakened by his departure. He left a strong management team, with an "office of the president" shared by three experienced managers including Ms Ellen Hancock, a former IBM vice-president.

His practice of surrounding himself with strong managers bodes well for Apple. One of the most pressing problems is the need to bolster its management team, which has been unsettled by resignations over the past few months.

His strong technology credentials may also help to stem the departure of Apple's engineering talent. He has a PhD in physics and holds more than a dozen patents for semiconductor technology developments.

Perhaps as important are Mr Amelio's links with other high technology industry leaders. He helped lead the semiconductor industry's trade battle against Japan in the late 1980s and early 1990s, forming firm friendships and winning the respect of the "movers and shakers" in Silicon Valley.

For Apple, which has had a "stand-alone" mentality for many years, such relationships could be important.

"Apple has been too insular," says Mr Regis McKenna, a Silicon Valley consultant with close ties to Apple. It needs to create technology, manufacturing and marketing alliances.

But in some respects Mr Amelio seems ill-prepared for the challenges he may face. He has no experience of consumer marketing – a critical aspect of Apple's business – nor is he familiar with the cut-throat personal computer market.

The press scrutiny that is part of the top job at Apple may also prove to be a burden for Mr Amelio, who prefers to avoid interviews. Neither is he accustomed to playing the role of an industry figurehead, in the style of Mr John Sculley, one of his predecessors, but analysts believe a high profile leader is essential if Apple is to rebuild its public image.

There are also questions about his ability to run a company of Apple's size. With 1995 revenues of $11bn, it is far bigger than National, which had 1995 sales of $2.4bn. Moreover, many analysts regard the "transformation" of National as incomplete. Last month, it announced it expected lower earnings and slower sales growth in the current quarter than in the year-ago period.

The challenge before Mr Amelio is daunting. At Apple he must achieve a fast turnround as well as a longer-term transformation. The question is whether he is tough enough to do the former and has the vision to achieve the latter.

**Profit from Experience: The National Semiconductor Story of Transformation Management by Gil Amelio and William Simon.*

Gil Amelio (left) is replacing Michael Spindler as chief executive and taking over the chairmanship from Mike Markkula (right)

Veba to take stake in TV decoding box venture

By Judy Dempsey in Berlin

Vebacom, the telecommunications division of Veba, the German industrial conglomerate, is poised to take a 23.9 per cent stake in a consortium set up to develop a pay-per-view standard decoding box which will pave the way for the launch of German digital television later this year.

The decision was made following talks late last week among the Multimedia Betriebsgesellschaft (MMBG) consortium, which is headed by Deutsche Telekom, the state telecoms network; Bertelsmann, Germany's largest publishing group; and Canal Plus, the French television channel.

Vebacom signed a letter of intent to be followed by a formal contract later this month. "We can move ahead faster now," one of the negotiators said. "We are anxious to speed up the development of the decoding box."

However, last week's talks were marred by the emergence of a dispute between MMBG and Kirch, the Munich-based media group, which could jeopardise the development of a standard decoding system.

Kirch, like MMBG, last year started developing its own decoding box technology, despite concerns that the market could not bear two decoding systems. Also, several German TV channels, including ARD, the state-run network, were anxious that some programmers would have restricted access through Kirch's system, while MMBG appeared to offer the broadest possible.

In a bid to develop a standard decoding box, Kirch and MMBG put aside their differences last month. Kirch agreed to take a 50 per cent stake in a new company formed out of Seca, the French company jointly owned by Bertelsmann and Canal Plus. This company would develop the "conditional access system", software giving viewers access to the system. Kirch also agreed to take a 9 per cent stake in MMBG.

However, last week, Kirch's participation in MMBG appeared to be in some doubt when it failed to attend the meeting, fuelling speculation that attempts to develop a uniform decoding box might be jeopardy.

"Kirch is hesitating again. But we cannot wait around. MMBG will press ahead regardless. We will soon issue tenders for supplying 150,000 decoders. Regardless of what Kirch decides, MMBG will proceed," a member of the consortium said.

BPSM poised for takeover of Chemical Bank arm

By Peter Wise in Lisbon

Banco Pinto & Sotto Mayor has bought a controlling stake in Banco Chemical (Portugal), a subsidiary of Chemical Bank of the US, in a deal expected to lead to a 100 per cent takeover costing about Es30bn ($194.8m).

The purchase is the second large bank acquisition in less than a year by Mr António Champalimaud, a 77-year-old industrialist. Now Portugal's richest man, he has succeeded in rebuilding a business empire that was virtually destroyed when a left wing government nationalised most of his assets in 1975.

BPSM, part of the Banco Totta & Açores (BTA) group controlled by Mr Champalimaud, said it had agreed to buy all of Chemical Bank's 67.7 per cent holding in Banco Chemical for an undisclosed price.

The sale has to be approved by the central bank. Under Portugal's takeover rules, an investor acquiring more than 50 per cent of a listed company must make a public offer for all the remaining capital.

Brokers calculate Banco Chemical's market value at Es27bn and expect BPSM to pay about Es30bn to acquire full control. The shares closed on Friday at Es1,680.

Mr Champalimaud bought 50 per cent of BTA from Banco Español de Crédito, the Spanish bank, for Es153bn last April, creating Portugal's third largest financial group.

A government decision to exempt him from making a bid for 100 per cent led to the resignation of the president of the securities regulator in protest.

BPSM's purchase followed a breakdown in talks between Banco Espírito Santo, Portugal's fourth largest financial group, and Chemical Bank on the sale of Banco Chemical.

Lisbon analysts said BES and Banco Chemical's management had failed to reach agreement on how the bank would be controlled after what had been planned as a joint purchase by managers, institutional investors and BES.

BPSM is expected to keep the current management of Banco Chemical in place. Chemical Bank is selling its holding in Banco Chemical because it is the only overseas subsidiary that it does not wholly own, according to brokers.

Banco Chemical, which focuses on public debt, foreign exchange and corporate finance operations, set up in Portugal in 1983 as Manufacturers Hanover. The first foreign bank to open in Portugal after the revolution, it was renamed after Manufacturers Hanover and Chemical Bank merged in 1992.

Wall St sees surge in business from passage of US telecoms bill

By Maggie Urry in New York

Wall Street investment bankers are preparing for a surge of lucrative business following last Thursday's passage of the US telecommunications bill.

The public offer of an expected $3bn stake in AT&T's equipment business, for which preliminary filings are due this week, is likely to be the first of many deals sparked by the legislation.

The expected flood of corporate activity will bring a fee bonanza for the banks, which have been building specialist teams to compete for the work.

The removal of barriers between long-distance and local telephone companies is expected to lead to mergers, alliances, spin-offs and capital raisings, far beyond the break-up of AT&T, the largest telecommunications group in the US, as they reposition themselves for the new environment.

Mr Mark Maybell, co-head of the telecom, media and technology investment banking group at Merrill Lynch, said his area accounted for over a fifth of Merrill's foreseeable investment banking revenues.

Mr Eduardo Mestre, head of investment banking at Salomon Brothers, said those sectors should provide 20 per cent of investment banking revenues for some years.

The telecommunications bill removes the barriers between the long-distance and local telephone companies and the cable companies.

These companies are expected to reposition themselves for the new free-market environment, leading to mergers, alliances, spin-offs and capital raisings, far beyond the break up of AT&T, the largest telecommunications group in the US.

Many deals are likely to involve combinations of media and telecommunications groups, while other companies, such as wireless businesses, will need to raise capital.

The activity will not be confined to the US, since deregulation and privatisation are trends in the telecommunications industry worldwide.

Late last week bankers were hastily calling clients to discuss the forthcoming changes in the wake of Congressional approval of the bill.

The transactions will inevitably bring sizeable amounts of work for investment bankers and lawyers. The flotation of AT&T's so-called systems and technology subsidiary alone could produce $100m–$150m in fees for managers and underwriters of the issue.

Co-lead managers of the issue are Morgan Stanley and Goldman Sachs, which will split the lion's share of the fees. Underwriters who have acted for AT&T before said the company is famed for driving down commissions, but the sheer size of the issue means fees will be large.

AT&T is planning to offer a 15 per cent or so stake in the business, which will be the largest initial public offering ever seen in the US if predictions of a $3bn value prove correct.

After filing the registration statement with the Securities and Exchange Commission this week, it hopes to gain approval in time to launch the public offer by late March or early April. AT&T then plans to spin off two other businesses to shareholders, late this year or early next.

In anticipation of the rise in business, investment banks have been hiring teams of specialists. Mr Maybell said in 1993 Merrill had only seven investment bankers working in the telecoms, media and technology group; it now had 85 people around the globe and could increase that to more than 100 by the end of this year. Merrill is a senior co-manager on the AT&T issue and last week won the mandate to privatise Telefónica de Peru.

Salomon made a number of appointments of media specialists last year, Mr Mestre said, making the telecoms and media areas one of the largest groups in the investment bank.

See Lex

NEWS DIGEST

Dasa confirms talks on sale of division

Daimler-Benz Aerospace (Dasa) has confirmed it is in talks with Singapore Technology & Industry Group (STIC) over the sale of the medical technology division of Dornier, Dasa's regional aircraft group. The German group said the talks had not yet led to a definite agreement.

According to Germany's *Welt am Sonntag*, the Sunday newspaper, the sale was supposed to have been concluded last December, but had been blocked by the Dornier family, which preferred a "German solution". The family reportedly insisted that Dasa try to sell the company to Siemens, the Germans electronics group.

Dornier Medizintechnik, based near Munich, has a turnover of around DM200m ($134.5m) and employs 700 staff. According to the report, STIC, which is 70 per cent state-owned, committed itself to retain the German production base and to keep the company's staff. *Wolfgang Münchau, Frankfurt*

Inchcape sells Dodwell business

Inchcape, the international marketing and services group, has completed another step in its restructuring with the disposal of Dodwell Marketing Consultants, a Tokyo-based research group. The buyer is PMC, a small independent marketing consultancy, also based in Tokyo, which advises European companies on Japanese strategy. The purchase price has not been revealed.

Dodwell Marketing Consultants is known for its annual studies of Japanese industry chronicling the breakdown of barriers between Japan's *keiretsu*, or corporate families, as they adjust to the pressure of slower growth. It has also tracked the trend of foreign companies, especially car importers, to establish their own smaller *keiretsu* in imitation of the Japanese originals. Dodwell's management will remain unchanged, but will come under Mr Ron Brown, a PMC director. *William Dawkins, Tokyo*

Cascades trebles earnings

Cascades, the Canadian-based international paper products and packaging group, more than trebled 1995 earnings to C$113m (US$82.2m), or C$1.82 a share, from C$33.9m, or 45 cents, in 1994. The latest period included a C$20.3m special gain. Sales rose 32 per cent from C$1.7m to C$2.3m.

Improved unit costs and a drop in recycled pulp prices more than offset declines in product prices in the final month of 1995. Some packaging plants in North American and Europe were closed in the fourth quarter to reduce inventory. But shipments overall strengthened in January, indicating 1996 should be "excellent", the company said. *Robert Gibbens, Montreal*

Teck ahead to C$90m for year

Teck, the Canadian-based international mining and metals group, earned C$90m (US$65.5m), or 97 cents a share, in 1995, up 31 per cent from $69m, or 77 cents, in 1994. Teck, with effective control of Cominco, had revenues of $699m, up from $542m a year earlier. The rise was attributed partly to the start-up of two base metals mines. Equity earnings from Cominco totalled $29m against $14m.

Gold output was little changed at 334,500 oz, but copper output rose 38 per cent to 127m lbs. Zinc output was 71m lbs against 58m lbs and coal output, 4m tonnes against 3.8m tonnes. Teck spent $38m on exploration, mostly in Chile, Peru, Brazil, Venezuela, Mexico and Kazakhstan. Its 11 per cent holding in Diamond Fields Resources, owner of the big Voisey's Bay nickel-cobalt property in Newfoundland, is carried at $108m, but at year-end had a market value of $309m. *Robert Gibbens*

FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Friday, February 2, 1996. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

		£ STG	US $	D-MARK	YEN (X 100)
Afghanistan	(Afghani)	7214.78	4750.00	3193.92	4452.57
Albania	(Lek)	148.321	97.6500	65.6808	91.5354
Algeria	(Dinar)	81.5114	53.6647	36.0844	50.3044
Andorra	(French Fr)	7.7595	5.1088	3.4352	4.7889
	(Sp Peseta)	190.115	125.170	84.1649	117.332
Angola	(Kwanza)	8645.58	5692.00	3827.33	5335.58
Antigua	(E Carib $)	4.1010	2.7000	1.8155	2.5309
Argentina	(Peso)	1.5182	0.9995	0.6721	0.9370
Armenia	(Dram)	610.596o	402.000	270.307	376.828
Aruba	(Florin)	2.7186	1.7900	1.2036	1.6779
Australia	(Aus $)	2.0122	1.3247	0.8907	1.2417
Austria	(Schilling)	15.8840	10.4579	7.0319	9.8031
Azerbaijan	(Manat)	6743.92o	4440.00	2985.48	4161.98
Azores	(Port Escudo)	233.911	154.005	103.554	144.362
Bahamas	(Bahama $)	1.5189	1	0.6724	0.9374
Bahrain	(Dinar)	0.5726	0.3770	0.2535	0.3534
Balearic Is	(Sp Peseta)	190.115	125.170	84.1649	117.332
Bangladesh	(Taka)	61.5135	40.5000	27.2324	37.9640
Barbados	(Barb $)	3.0550	2.0113	1.3524	1.8854
Belarus	(Rouble)	18667.3o	12290.0	8263.85	11520.4
Belgium	(Belg Fr)	46.4313	30.5700	20.5554	28.6558
Belize	(B $)	3.0378	2.0000	1.3448	1.8748
Benin	(CFA Fr)	775.950	510.880	343.518	478.890
Bermuda	(Bermudian $)	1.5189	1	0.6724	0.9374
Bhutan	(Ngultrum)	55.8178	36.7500	24.7109	34.4488
Bolivia	(Boliviano)	7.5183	4.9500	3.3284	4.6400
Botswana	(Pula)	4.3346	2.8539	1.9190	2.6752
Brazil	(Real)	1.4857	0.9782	0.6577	0.9169
Brunei	(Brunei $)	2.1538	1.4180	0.9535	1.3292
Bulgaria	(Lev)	112.209	73.8750	49.6739	69.2492
Burkina Faso	(CFA Fr)	775.950	510.880	343.518	478.890
Burma	(Kyat)	8.7379	5.7528	3.8682	5.3926
Burundi	(Burundi Fr)	395.433	260.342	175.055	244.040
Cambodia	(Riel)	3493.47	2300.00	1546.53	2155.98
Cameroon	(CFA Fr)	775.950	510.880	343.518	478.890
Canada	(Canadian $)	2.0869	1.3740	0.9239	1.2880
Canary Is	(Sp Peseta)	190.115	125.170	84.1649	117.332
Cp. Verde	(CV Escudo)	126.023	82.9700	55.7894	77.7747
Cayman Is	(CI $)	1.2580	0.8282	0.5569	0.7763
Cent. Afr. Rep	(CFA Fr)	775.950	510.880	343.518	478.890
Chad	(CFA Fr)	775.950	510.880	343.518	478.890
Chile	(Chilean Peso)	622.805	410.050	275.720	384.374
China	(Yuan)	12.6258	8.3127	5.5895	7.7922
Colombia	(Col Peso)	1550.78	1021.03	686.542	957.091
Comoros	(Fr)	581.822	383.065	257.568	359.059
Congo	(CFA Fr)	775.950	510.880	343.518	478.890
Costa Rica	(Colon)	296.444	195.170	131.233	182.949
Côte d'Ivoire	(CFA Fr)	775.950	510.880	343.518	478.890
Croatia	(Kuna)	8.3599	5.5039	3.7009	5.1593
Cuba	(Cuban Peso)	1.5189	1	0.6724	0.9374
Cyprus	(Cyprus £)	0.7176	0.4725	0.3177	0.4429
Czech Rep.	(Koruna)	41.3401	27.2180	18.3015	25.5137
Denmark	(Danish Krone)	8.7357	5.7515	3.8673	5.3914
Djibouti Rep	(Djib Fr)	243.024	160.000	107.585	149.981
Dominica	(E Carib $)	4.1010	2.7000	1.8155	2.5309
Dominican Rep	(D Peso)	20.2166	13.3100	8.9497	12.4766
Ecuador	(Sucre)	4498.22o	2961.50	1991.33	2776.05
	(Sucre)	4374.43m	2880.00	1936.53	2699.66
Egypt	(Egyptian £)	5.1894	3.4165	2.2973	3.2026
El Salvador	(Colon)	13.3056	8.7600	5.8903	8.2115
Equat'l Guinea	(CFA Fr)	775.950	510.880	343.518	478.890
Estonia	(Kroon)	18.0840	11.9060	8.0057	11.1605
Ethiopia	(Ethiopian Birr)	8.8096	5.8000	3.9000	5.4368
Falkland Is	(Falk £)	1	0.6584	0.4427	0.6171
Faroe Is	(Danish Krone)	8.7357	5.7515	3.8673	5.3914
Fiji Is	(Fiji $)	2.1668	1.4266	0.9592	1.3372
Finland	(Markka)	6.9257	4.5598	3.0660	4.2743
France	(Fr)	7.7595	5.1088	3.4352	4.7889
Fr. Cty/Africa	(CFA Fr)	775.950	510.880	343.518	478.890
Fr. Guiana	(Local Fr)	7.7595	5.1088	3.4352	4.7889
Fr. Pacific Is	(CFP Fr)	141.045	92.8617	62.4406	87.0470
Gabon	(CFA Fr)	775.950	510.880	343.518	478.890
Gambia	(Dalasi)	14.8612	9.8500	6.6232	9.2332
Germany	(D-Mark)	2.2589	1.4872	1	1.3941
Ghana	(Cedi)	2270.76	1495.00	1005.24	1401.38
Gibraltar	(Gib £)	1	0.6584	0.4427	0.6171
Greece	(Drachma)	372.407	245.190	164.867	229.837
Greenland	(Danish Krone)	8.7357	5.7515	3.8673	5.3914
Grenada	(E Carib $)	4.1010	2.7000	1.8155	2.5309
Guadeloupe	(Local Fr)	7.7595	5.1088	3.4352	4.7889
Guam	(US $)	1.5189	1	0.6724	0.9374
Guatemala	(Quetzal)	9.2143	6.0664	4.0791	5.6865
Guinea	(Fr)	1514.34	997.000	670.387	934.571
Guinea-Bissau	(Peso)	27394.9	18036.0	12127.5	16906.6
Guyana	(Guyanese $)	211.887	139.500	93.8004	130.765
Haiti	(Gourde)	28.8591	19.0000	12.7757	17.8103
Honduras	(Lempira)	15.3257	10.0900	6.7846	9.4582
Hong Kong	(HK $)	11.7438	7.7320	5.1990	7.2478
Hungary	(Forint)	215.502	141.885	95.4041	133.001
Iceland	(Icelandic Krona)	101.630	66.9100	44.9905	62.7203
India	(Indian Rupee)	55.8178	36.7500	24.7109	34.4488
Indonesia	(Rupiah)	3479.69	2291.00	1540.48	2147.54
Iran	(Rial)	4556.70o	3000.00	2017.21	2812.15
Iraq	(Iraqi Dinar)	0.4722o	0.3109	0.2091	0.2914
Iraq	(Iraqi Dinar)	1518.90m	1000.00	672.405	937.383
Irish Rep	(Punt)	0.9687	0.6378	0.4288	0.5978
Israel	(Shekel)	4.7671	3.1386	2.1104	2.9421
Italy	(Lira)	2399.51	1579.82	1062.28	1480.90
Jamaica	(Jamaican $)	56.1993	37.0000	24.8790	34.6832
Japan	(Yen)	162.031	106.680	71.7321	100
Jordan	(Jordanian Dinar)	1.0769	0.7090	0.4767	0.6646
Kazakhstan	(Tenge)	99.4880	65.5000	44.0425	61.3985
Kenya	(Kenya Shilling)	88.2481	58.1000	39.0667	54.4620
Kiribati	(Australian $)	2.0122	1.3247	0.8907	1.2417
Korea North	(Won)	3.2657	2.1500	1.4457	2.0154
Korea South	(Won)	1186.83	781.400	525.417	732.471
Kuwait	(Kuwaiti Dinar)	0.4552	0.2997	0.2015	0.2809
Laos	(New Kip)	1397.39	920.000	618.612	862.392
Latvia	(Lats)	0.8388	0.5522	0.3713	0.5176
Lebanon	(Lebanese £)	2416.49	1591.00	1069.80	1491.38
Lesotho	(Maluti)	5.5450	3.6508	2.4548	3.4222
Liberia	(Liberian $)	1.5189	1	0.6724	0.9374
Libya	(Libyan Dinar)	0.5400	0.3555	0.2390	0.3332
Liechtenstein	(Swiss Fr)	1.8513	1.2183	0.8196	1.1426
Lithuania	(Litas)	6.0756	4.0000	2.6896	3.7495
Luxembourg	(Lux Fr)	46.4313	30.5700	20.5554	28.6558
Macao	(Pataca)	12.1349	7.9892	5.3720	7.4889
Macedonia	(Denar)	57.8701	38.1000	25.6186	35.7143
Madagascar	(MG Fr)	6075.60	4000.00	2689.62	3749.53
Madeira	(Port Escudo)	233.911	154.005	103.554	144.362
Malawi	(Kwacha)	23.2348	15.2971	10.2858	14.3392
Malaysia	(Ringgit)	3.8769	2.5525	1.7163	2.3927
Maldive Is	(Rufiya)	17.8775	11.7700	7.9142	11.0330
Mali Rep	(CFA Fr)	775.950	510.880	343.518	478.890
Malta	(Maltese Lira)	0.5485	0.3611	0.2428	0.3385
Martinique	(Local Fr)	7.7595	5.1088	3.4352	4.7889
Mauritania	(Ouguiya)	208.545	137.300	92.3211	128.703
Mauritius	(Maur Rupee)	28.4718	18.7450	12.6042	17.5713
Mexico	(Mexican Peso)	11.2471	7.4050	4.9792	6.9413
Miquelon	(Local Fr)	7.7595	5.1088	3.4352	4.7889
Moldova	(Leu)	6.8882	4.5350	3.0494	4.2510
Monaco	(French Fr)	7.7595	5.1088	3.4352	4.7889
Mongolia	(Tugrik)	698.968	460.180	309.427	431.365
Montserrat	(E Carib $)	4.1010	2.7000	1.8155	2.5309
Morocco	(Dirham)	13.1977	8.6890	5.8425	8.1449
Mozambique	(Metical)	15037.1	9900.00	6656.80	9280.09
Namibia	(S A Rand)	5.5450	3.6508	2.4548	3.4222
Nauru Is	(Australian $)	2.0122	1.3247	0.8907	1.2417
Nepal	(Nepalese Rupee)	85.0584	56.0000	37.6547	52.4934
Netherlands	(Guilder)	2.5295	1.6654	1.1198	1.5611
N'nd Antilles	(A/Guilder)	2.7188	1.7900	1.2036	1.6779
New Zealand	(NZ $)	2.2447	1.4778	0.9937	1.3852
Nicaragua	(Gold Cordoba)	12.1132	7.9750	5.3624	7.4758
Niger Rep	(CFA Fr)	775.950	510.880	343.518	478.890
Nigeria	(Naira)	33.4158o	22.0000	14.7929	20.6224
	(Naira)	130.090m	85.6500	57.5914	80.2868
Norway	(Nor. Krone)	9.8590	6.4911	4.3646	6.0846
Oman	(Rial Omani)	0.5848	0.3850	0.2589	0.3609
Pakistan	(Pak. Rupee)	52.0900	34.2957	23.0606	32.1482
Panama	(Balboa)	1.5189	1	0.6724	0.9374
Papua New Guinea	(Kina)	2.0258	1.3337	0.9001	1.2549
Paraguay	(Guarani)	3068.18	2020.00	1358.26	1893.51
Peru	(New Sol)	3.5736	2.3530	1.5822	2.2057
Philippines	(Peso)	39.7514	26.1720	17.5982	24.5332
Pitcairn Is	(£ Sterling)	1	0.6584	0.4427	0.6171
	(NZ $)	2.2447	1.4778	0.9937	1.3852
Poland	(Zloty)	3.8716	2.5490	1.7140	2.3894
Portugal	(Escudo)	233.911	154.005	103.554	144.362
Puerto Rico	(US $)	1.5189	1	0.6724	0.9374
Qatar	(Riyal)	5.5292	3.6403	2.4477	3.4123
Reunion Is. de la	(F Fr)	7.7595	5.1088	3.4352	4.7889
Romania	(Leu)	4237.73	2790.00	1876.01	2615.30
Russia	(Rouble)	0.9806o	0.6456	0.4341	0.6052
	(Rouble)	7192.75m	4735.50	3184.17	4438.98
Rwanda	(Fr)	334.156	220.000	147.929	206.224
St Christopher	(E Carib $)	4.1010	2.7000	1.8155	2.5309
St Helena	(£)	1	0.6584	0.4427	0.6171
St Lucia	(E Carib $)	4.1010	2.7000	1.8155	2.5309
St Pierre	(French Fr)	7.7595	5.1088	3.4352	4.7889
St Vincent	(E Carib $)	4.1010	2.7000	1.8155	2.5309
San Marino	(Italian Lira)	2399.51	1579.82	1062.28	1480.90
Sao Tome	(Dobra)	2668.56	1756.90	1181.35	1646.89
Saudi Arabia	(Riyal)	5.6966	3.7506	2.5219	3.5157
Senegal	(CFA Fr)	775.950	510.880	343.518	478.890
Seychelles	(Rupee)	7.5490	4.9700	3.3419	4.6588
Sierra Leone	(Leone)	1382.20	910.000	611.888	853.018
Singapore	($)	2.1538	1.4180	0.9535	1.3292
Slovakia	(Koruna)	45.9270	30.2370	20.3315	28.3437
Slovenia	(Tolar)	204.795	134.831	90.6611	126.389
Solomon Is	($)	5.3109	3.4966	2.3511	3.2776
Somali Rep	(Shilling)	3979.52	2620.00	1761.70	2455.94
South Africa	(Rand)	5.5450	3.6508	2.4548	3.4222
Spain	(Peseta)	190.115	125.170	84.1649	117.332
Spanish Ports in N Africa	(Sp Peseta)	190.115	125.170	84.1649	117.332
Sri Lanka	(Rupee)	81.5395	53.6850	36.0980	50.3234
Sudan Rep	(Dinar)	129.866	85.5000	57.4906	80.1462
Surinam	(Guilder)	622.749	410.000	275.686	384.327
Swaziland	(Lilangeni)	5.5450	3.6508	2.4548	3.4222
Sweden	(Krona)	10.5585	6.9517	4.6744	6.5164
Switzerland	(Fr)	1.8513	1.2189	0.8196	1.1426
Syria	(£)	63.6419	41.9000	28.1738	39.2763
Taiwan	($)	41.7259	27.4720	18.4723	25.7518
Tanzania	(Shilling)	826.262	544.000	365.785	509.936
Thailand	(Baht)	38.4801	25.3350	17.0354	23.7486
Togo Rep	(CFA Fr)	775.950	510.880	343.518	478.890
Tonga Is	(Pa'anga)	2.0122	1.3247	0.8907	1.2417
Trinidad/Tobago	($)	8.6729	5.7100	3.8394	5.3525
Tunisia	(Dinar)	1.4757	0.9716	0.6533	0.9107
Turkey	(Lira)	96720.4	63680.0	42818.7	59692.5
Turks & Caicos	(US $)	1.5189	1	0.6724	0.9374
Tuvalu	(Australian $)	2.0122	1.3247	0.8907	1.2417
Uganda	(New Shilling)	1556.87	1025.00	689.215	960.817
Ukraine	(Karbovanets)	285097.8	187700.0	126210.3	175948.8
U A E	(Dirham)	5.5784	3.6728	2.4696	3.4428
United Kingdom	(£)	1	0.6584	0.4427	0.6171
United States	(US $)	1.5189	1	0.6724	0.9374
Uruguay	(Peso Uruguayo)	10.9361	7.2000	4.8413	6.7492
Vanuatu	(Vatu)	173.377	114.150	76.7550	107.002
Vatican	(Lira)	2399.51	1579.82	1062.28	1480.90
Venezuela	(Bolivar) (1)	439.912o	289.625	194.745	271.490
Venezuela	(Bolivar) (1)	601.649m	396.121	266.354	371.317
Vietnam	(Dong)	16726.9	11012.5	7404.85	10322.9
Virgin Is-British	(US $)	1.5189	1	0.6724	0.9374
Virgin Is-US	(US $)	1.5189	1	0.6724	0.9374
Western Samoa	(Tala)	3.8472	2.5329	1.7031	2.3743
Yemen (Rep of)	(Rial) (3)	212.846r	140.000	94.1366	131.234
Yugoslavia	(New Dinar)	7.4595(2)	4.9111	3.3023	4.6036
Zaire Rep	(Zaire)	18074.9	11900.0	8001.81	11154.9
Zambia	(Kwacha)	1524.98	1004.00	676.094	941.132
Zimbabwe	($)	14.3430	9.4430	6.3495	8.8517

Special Drawing Rights February 1, 1996 Utd Kingdom £0.960845 Utd States $1.45347 Germany DM2.16840 Japan Y155.156 European Currency Unit Rates February 2, 1996 Utd Kingdom £0.837081 Utd States $1.27171 Germany DM1.89141 Japan Y135.346

Abbreviations: (o) Free rate; (m) Market rate; (o) Official rate; (r) Parallel rate; (t) Tourist rate; (u) Currency fixed against the US Dollar; (v) Floating rate; (1) Venezuelan Official rate devalued on 11/12/95. Market rate derived from Brady bond trading. (2) Yugoslavian Dinar devalued on 26/11/95 (3) Yemeni official rate ... Some data derived from THE WM/REUTERS CLOSING SPOT RATES & Bank of America, Economics Department, London Trading Centre. Enquiries: 0171 634 4365. To obtain a copy of this table by Fax from the Cityline service dial 0891 432001. Calls charged at 39p/minute cheap rate, 49p/minute at all other times. Friday, February 2, 1996

FINANCIAL TIMES
MARKETS
THIS WEEK

Global Investor / **Philip Coggan**

Why policymakers should take note

One issue which always mystifies the novice investor is why the financial markets always react so joyously to bad economic news. A rise in unemployment or a fall in industrial production seems to be worth a point on bonds and a jump in the stock market index.

Experienced global investors explain patiently that the key determinant of short term financial market performance is interest rates. Slower growth prompts monetary authorities to lower rates; this in turn reduces corporate costs, reduces the appeal of holding cash, and in the case of falling long term yields, by lowering the rate at which future income streams are discounted, increases the present value of shares.

Conversely, of course, faster economic growth causes governments and central banks to fear higher inflation, prompting them to increase interest rates, with consequent adverse effects on share prices.

But surely, over the long term, higher economic growth ought to be good for equities, since it should lead to faster profits growth? After all, this is one of the main arguments for investing in emerging markets.

Evidence of a link between stock market returns and economic growth in recent years is insubstantial. Looking at the G7 economies over the period 1980-1994, the country with the best growth record was Japan; but, in local currency terms, it was the second worst stock market performer. In contrast, the UK, which had the worst economic growth record, was the second best equity performer.

However, the local currency numbers flatter the performance of the two perennial currency devaluers of the G7: the UK and Italy. The picture changes a bit once the figures are converted into US dollars.

The strength of the yen makes the Japanese stock market the second best performer in dollar terms; however it is still pipped by the UK. Canada, which has the second best economic growth rate of the seven, was the worst choice for investors.

Any such statistical comparison is hampered by the choice of the base and end years; 1980 was a recession year in the UK, whereas the Japanese economy was virtually stagnant in 1994. If one breaks the era into three equal parts, a couple of points stand out: the UK's best stock market performance came in its two periods of weakest relative economic growth (the early 1980s and the early 1990s), whereas the Japanese stock market did best in the late 1980s, when both its economy and that of the rest of the world was growing fastest.

One obvious factor which such crude analyses ignore is the proportion of gross domestic product taken by corporate profits. By 1980, after a decade of stagflation, dividend controls and labour unrest, UK industry was in a poor state; the London stock market's stellar performance in the 1980s thus owed much to a rebound in corporate profits and confidence. It is possible, therefore, that UK profits may start to decline as a share of GDP; a process which might be accelerated by the election of a Labour government.

Another issue is the internationalisation of the economy. The profitability of the UK corporate sector, with its heavy overseas bias, is only partially dependent on the health of the British economy; the relationship between profits and economic growth in the US, where trade and overseas subsidiaries are relatively less important, is much more direct. Furthermore, in some countries, such as Germany and Italy, substantial swathes of industry may not have a stock market quote. Consequently, the quoted sector may not be fully representative of the overall economy.

Corporate governance is another issue. The Anglo-Saxon economies place much more emphasis on shareholders' rights; consequently improvements in the health of the corporate sector may be passed through to investors more fully than in so-called "stakeholder" economies. The Japanese corporate sector, in particular, is notable for paying low dividends, achieving a poor return on equity and not allowing hostile takeovers.

Given that economists have proved pretty unsuccessful in predicting growth rates – and economic turning points – is it worth global investors paying close attention to GDP forecasts?

Perhaps the question should be phrased the other way round. Economic policymakers should probably be paying attention to the stock market, which seems good at predicting growth slowdowns and recessions. In all the G7 countries bar Italy, the years preceding slow growth or recession were much worse than average years for the stock market.

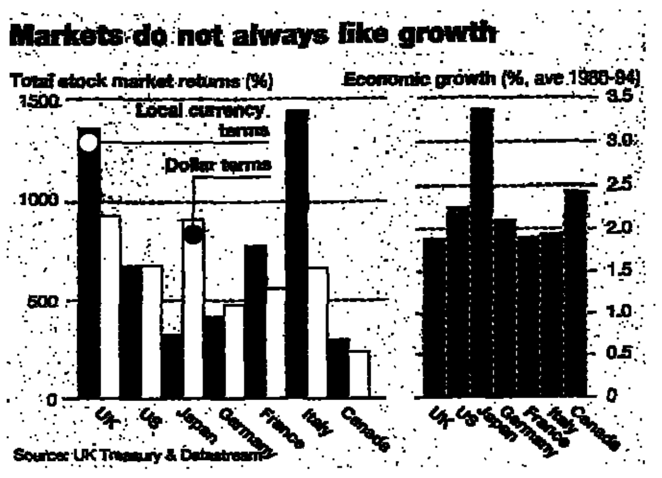
The US stock market's worst year during the 1980-94 period – 1981 – preceded its worst year for economic performance – 1982. In Japan, the worst three years for the stock market – 1990-1992 – presaged the worst three years for growth 1992-1994. But the market's predictive powers in terms of better-than-average growth is harder to gauge. In the US, Japan, France and Canada, the years in the 1980-94 period which preceded strong economic growth rates were better than average for the stock market; in the UK, Germany and Italy, however, they were worse.

The problem for investors here is that growth is normally at its fastest at two points: when economies are first emerging from recession, and interest rates are still low; and when the economy is overheating and the authorities are tightening monetary policy.

What about the current conditions? It is clear from the relatively buoyant performance of stock markets round the world that, while economic growth is slowing, investors are not expecting a recession in the near future. That should be good news for the many politicians running for re-election during the next 18 months.

But for those who believe that, in the long run, economic growth does matter – in other words, the 1980-1994 period covered by these statistics is just not long enough – the moral might be to sell the UK stock market and buy Canada.

Markets do not always like growth



Total return in local currency to 1/2/96

	US	Japan	Germany	France	Italy	UK
Cash						
Week	0.10	[illegible]	[illegible]	0.09	0.19	0.12
Month	0.47	[illegible]	[illegible]	[illegible]	0.95	0.55
Year	7.32	[illegible]	[illegible]	[illegible]	10.19	7.88
Bonds 3-5 year						
Week	0.68	[illegible]	[illegible]	0.72	[illegible]	-0.14
Month	1.01	[illegible]	[illegible]	-1.97	-3.14	-0.86
Year	15.13	[illegible]	[illegible]	16.94	20.53	14.48
Bonds 7-10 year						
Week	0.70	[illegible]	[illegible]	0.06	1.33	-0.36
Month	0.47	[illegible]	[illegible]	[illegible]	-0.22	-0.70
Year	20.61	[illegible]	[illegible]	29.22	26.75	16.64
Equities						
Week	3.5	[illegible]	[illegible]	[illegible]	[illegible]	0.61
Month	3.2	[illegible]	[illegible]	9.0	7.2	2.1
Year	38.4	[illegible]	[illegible]	15.9	-2.0	28.7

Source: Cash & Bonds – Lehman Brothers; Equities – FT/S&P Actuaries World Indices. The FT/S&P Actuaries World Indices are owned by FT-SE International Limited, Goldman Sachs & Co. and Standard & Poor's

COMMODITIES Richard Mooney

All eyes focus on gold

All eyes will be on the gold price as this week gets under way.

The stand-off following the New Year upsurge ended in the middle of last week as US and then Japanese speculators piled into the world gold markets. As short-sellers were forced to cover, the London price raced to $417.75 a troy ounce at one stage, $30 up from the start of the year, and some traders were looking for a test of resistance at $420 and then, perhaps, $424.

In the event, both bulls and bears appeared to decide that caution was the better part of valour, especially with the weekend break approaching. The London price ended at $415.40 an ounce, still nearly $10 up on the week, after the market had absorbed a modest amount of profit-taking and pre-weekend book-squaring.

But all remains to play for.

"I'm not convinced the $402 level was fully tested [two weeks ago]," one cautious analyst told the Reuters news agency on Friday. "It's also got to be remembered that February is the worst month for physical gold offtake."

But many traders and analysts, while wary about the possibility of the US investment funds pulling out as quickly as they came in, remained confident that the gold uptrend had further to go.

They thought that further substantial gains were possible in the short term if producers continued to resist the temptation to cash in at the higher prices; and that that possibility would be greatly enhanced if other producers followed Canada's Barrick Gold in reducing the amount of forward production against which they had price hedges.

● Events this week include the three-day Investing in African Mining Conference, Indaba '96, which begins in Cape Town today.

Tomorrow the International Rubber Study Group will hold an executive committee meeting in London and in Canberra the Australian Bureau of Agricultural and Resource Economics begins its 3-day annual outlook conference.

Economics Notebook

The generation game

These days it seems every US politician comes armed with a bar chart depicting the horrors of the long-term decline in the rate of national saving. Less often mentioned, however, is its direct counterpart: a dramatic rise in the consumption of the elderly, paid for largely by Uncle Sam.

In the 1950s and 1960s, the US net national savings rate – net output less public and private consumption – averaged about 9 per cent per year. In the first half of the 1990s it was less than 2¾ per cent.

This fall has meant lower investment. Net domestic investment averaged a little more than 3 per cent of GDP in the early 1990s compared to about 8 per cent in the 1960s and 1970s, leading to slower growth in labour productivity and real wages.

In the disputes over balancing the federal budget, deficit hawks, and even Mr Clinton on occasion, tend to blame "big government" for reducing the country's net savings pie. In one important sense, they are right. Public borrowing directly reduces the amount of domestic savings funds available for investment. Balancing the budget can therefore be expected to raise net national savings, although not necessarily one-for-one.

Yet, as economists Jagadeesh Gokhale, Lawrence Kotlikoff, and John Sabelhaus point out in a new paper*, government may have been borrowing more, in recent years, but it has not been consuming more, people have. Public consumption has declined slightly as a share of GDP over the past few decades, from 22 per cent in the 1960s to 21 per cent in the early 1990s.

Consumption by households, on the other hand, has risen, from about 69 per cent of GDP in the 1960s to more than 77 per cent last year. As the main chart shows, it is this that has driven the overall decline in net savings.

Looking more closely at spending and savings patterns of different age groups allows the authors to explode another myth about the decline in US savings, that it is all down to spend-thrift baby-boomers. They find that today's twenty-to-forty-somethings spend a smaller proportion of their income than their 1960s counterparts. This has been more than offset, however, by a rise in consumption by the elderly.

The right-hand chart shows how the consumption of the elderly has risen relative to that of 30 year-olds in recent years. In the early 1960s average consumption by 70 year-olds was only 71 per cent that of 30 year-olds. Nowadays, however, they spend nearly 20 per cent more. Medical expenses can explain part of the difference, but relative non-medical spending by 70 year olds today is 91 per cent that of the younger group, compared to only 63 per cent in the early 1960s.

Some of the rise in relative spending by the elderly can be put down to a rising "propensity to consume", in that older people today tend to spend more, for a given level of income, than they did in the 1960s. More important, however, has been a large increase in the relative amount they have available to spend.

The authors make a stab at calculating the combined financial resources of each generation, relative to others, by estimating the present value of all future labour earnings, pensions, social security benefits and other state transfers, net of any future taxes. They conclude that there has been a striking shift in the relative wealth of the elderly, which, given their higher propensity to spend, is more than enough to explain the decline in net national savings over the period.

In the early 1960s, the average resources of 70 year-olds were only 56 per cent as large as those of 30 year-olds. By 1990, the ratio was 85 per cent. The authors believe that government transfers – in the form of social security benefits and spending on Medicare, the public health insurance scheme for the elderly – are almost single-handedly responsible for this shift in resources from young to old.

These "generational accounting" exercises need to be handled with care, since the results are highly sensitive to assumptions about lifetime consumption behaviour and the level of interest rates. But the broad thrust of the authors' findings is consistent with other evidence on the negative effect of "pay-as-you-go" pension systems on national saving, investment and real wage growth.

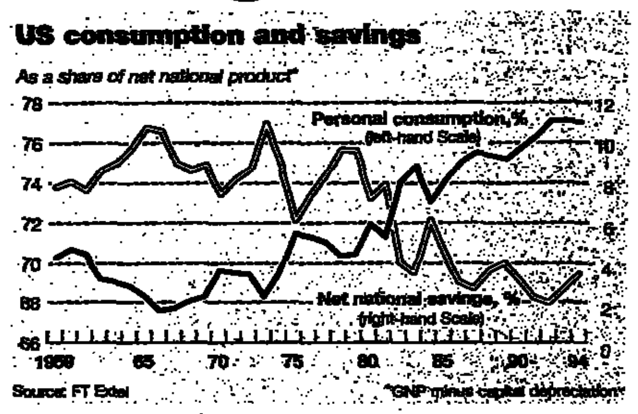
It makes more sense politically to balance the budget by cutting government transfers to the poor than to cut down on the much larger transfers from young to old, fewer than a fifth of which go to poor households. In economic terms, however, it is a recipe for recurring budget deficits and further declines in national savings.

Mr Clinton has so far shied away from telling elderly Americans their consumption will have to fall if national savings are to rise. The baby-boomers may have won the Presidency, but they have not, it seems, taken control.

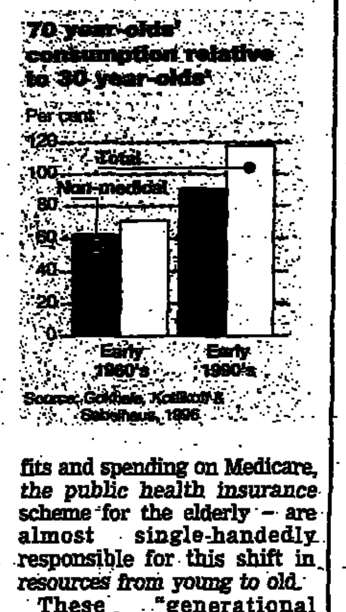
"Understanding the post-war decline in US saving", Brookings Papers 1996

Stephanie Flanders

US consumption and savings



70 year-olds' consumption relative to 30 year-olds



NOTICE OF DISTRIBUTION TO HOLDERS OF U.S.$30,525,000 PRINCIPAL AMOUNT OF 11-1/2% SERIES A BONDS DUE 2002 AND U.S.$5,797,500 PRINCIPAL AMOUNT OF 11-1/2% SERIES B BONDS DUE 2002 ISSUED BY MLH REALTY INVESTMENTS VI N.V.

During the semi-annual period ended November 30, 1995, MLH Income Realty Partnership VI ("MLHIRP VI"), in which MLH Realty Investments VI (A) N.V. Inc. (the "Subsidiary"), a wholly-owned subsidiary of MLH Realty Investments VI N.V. (the "Issuer"), holds units representing limited partnership interests (the "Units"), sold its investments in Fort Jersey Distribution Center, Five Points and Bayhill Shopping Centers and Vista Diablo. A description of the sales is provided in the MLHIRP VI letter to investors dated December 29, 1995 for the semi-annual period ended November 30, 1995. Such letter may be obtained from Morgan Guaranty Trust Company of New York, the Issuer's paying agent (the "Paying Agent"), upon request.

On February 15, 1996, the Subsidiary, through the Issuer's paying agents (as set forth below), will make available to the holders on such date of the Issuer's 11-1/2% Series A Bonds due 2002 with a principal amount of U.S.$30,525,000 and 11-1/2% Series B Bonds due 2002 with a principal amount of U.S.$5,797,500 (collectively, the "Bonds") a payment of accrued interest and a partial payment of principal on such Bonds. Each holder of the Bonds on such date will be entitled to receive accrued interest of $173.38 (which represents all accrued but unpaid interest on the Bonds through such date) and a partial payment of principal of $99.05, for each $750 principal amount of the Bonds. The accrued interest and the partial payment of principal represent the property sale proceeds and distributable cash distributed by MLHIRP VI on the Units on December 29, 1995 and January 31, 1996, respectively. Please note that this payment is being made in lieu of the semi-annual interest payment which would have been made on April 15, 1996.

In order to receive the above interest and principal payments on February 15, 1996, each Bondholder will be required to deliver either to the Paying Agent, at 60 Victoria Embankment, London EC4Y 0JP, England, or with respect to the Series A Bonds only, to Kredietbank S.A. Luxembourgeoise, 43 Boulevard Royal, L-2955 Luxembourg, Interest Coupon Number 18 for each of the Bonds, which covers the semi-annual interest payment, and Principal Coupon Number 1 for each of the Bonds, which covers the partial payment of principal. If you have not already done so, please submit these coupons to the Paying Agent.

By: MLH Realty Investments VI N.V.
Dated: February 5, 1996

CONTRACTS & TENDERS

INVITATION FOR SUBMISSION OF TENDERS FOR BALANCE SHEET VERIFICATION AND EVALUATION OF ASSETS OF THE BANK of CRETE

According to the Provisions of Law 2330/95 of the Hellenic State, the Shares of Athens based Bank of Crete S.A. will be disposed in whole by Public Invitation to Bid within 1996.

For the preparation of sale it has been decided that a verification of the Balance Sheet and an evaluation of Assets of the Bank that is to be sold will be effected. Whosoever is interested in undertaking this project, is invited to submit his offer and make mention of compensation and required period of completion.

The basic methodology to be followed for evaluating the assets of the Bank should be noted in the offer.

It is kindly required that, as from assignment date, the verification of the Bank's Balance Sheet and Evaluation of Assets be carried out in a short period of time.

Whosoever is interested in undertaking the above mentioned project, should have prior experience in similar projects and mention them in his offer. In case the interested party is not an internationally approved auditing company, it should assign that part of the project dealing with the Balance Sheet verification to an approved company.

Offers are to be submitted in a sealed envelope labelled as follows: "Offer for the evaluation of the Bank of Crete". Submission should be effected no later than 14:00 hrs of February 21, 1996. Submissions beyond the specified time will not be examined.

The sealed bids are to be delivered to:
BANK OF CRETE
22, VOUKOURESTIOU ST.
(2nd floor)
106 71 ATHENS

Att.: - Mr Dimitrios Alexakis, Deputy General Manager Tel.: 3644436, 3606511 ext. 1221
- Mrs Anna Doulioti, Administration Manager Tel.: 3644822, 3606511 ext. 1253

For any information and for the receipt of informative documents, interested parties can revert to the above mentioned authorised personnel of the Bank of Crete who are entrusted to receive the bids.

After the bids have been evaluated, and at the latest by March 1, 1996 the interested parties will receive due written notification regarding their offers. The two interested parties whose submitted offers prevail, will carry out independently the overall verification of the Balance Sheet and the evaluation of assets of the Bank of Crete S.A.

BANK OF CRETE S.A.

LEGAL NOTICES

In the matter of Hall Harford Jeffreys Langdale Ltd
and
In the matter of the Insolvency Act 1986

Notice is hereby given, pursuant to Section 98 of the Insolvency Act 1986, that a meeting of the creditors of the above-named company will be held at 20 Farringdon Street, London EC4A 4PP on 7 February 1996 at 11.00am for the purposes mentioned in Section 99, 100 and 101 of the said Act.

Statements of claim, and proxy forms if applicable, must be lodged at PO Box 730, 20 Farringdon Street, London EC4A 4PP not later than 12 noon on the 6 February 1996.

A list of the names and addresses of the company's creditors may be inspected, free of charge, at the offices of KPMG Corporate Recovery, PO Box 730, 20 Farringdon Street, London EC4A 4PP United Kingdom on 5 and 6 February 1996.

Dated 26 January 1996
By order of the Board
Director

Landesbank Kreditbank Baden-Württemberg

Landeskreditbank Baden-Württemberg
US$200,000,000
Subordinated floating rate notes due 2003

Notice is hereby given that the notes will bear interest at 5.25% per annum from 5 February 1996 to 5 August 1996. Interest payable on 5 August 1996 will amount to US$26.54 per US$1,000 note and US$265.42 per US$10,000 note and US$2,654.17 per US$100,000 note.

Agent: Morgan Guaranty Trust Company
JPMorgan

EUROFIMA
European Company for the Financing of Railroad Rolling Stock
ITL300,000,000,000
Floating Rate Note due 1998

Notice is hereby given that for the interest period 5 February 1996 to 6 May 1996 the notes will carry an interest rate of 9.32813% per annum. Interest payable on 6 May 1996 will amount to ITL117,897 per ITL5,000,000 and ITL1,178,972 per ITL50,000,000 note.

Agent: Morgan Guaranty Trust Company
JPMorgan

Dong-A Pharmaceutical Co., Ltd.
(incorporated in the Republic of Korea with limited liability)
(the "Company")
U.S. $25,000,000
3½ per cent. Convertible Bonds due 2006
(the "Bonds")

NOTICE IS HEREBY GIVEN to the holders of the Bonds that the Company has declared a dividend of 160,644 shares to holders of its common shares registered on the shareholders list as of 31st December, 1995. Under mandatory provisions of Korean law, the proposed dividend will be submitted for approval to a general meeting of shareholders to be held in the near future.

A further Notice will be given to the holders of the Bonds of any adjustment to the Conversion Price in relation to the Bonds as a result of such share dividend.

5th February, 1996 Dong-A Pharmaceutical Co., Ltd.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FT-SE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FT-SE International Limited and Goldman Sachs in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the Indices.

NATIONAL AND REGIONAL MARKETS	FRIDAY FEBRUARY 2 1996								THURSDAY FEBRUARY 1 1996					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	%chg since 29/12/95	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg from 29/12/95	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	52 week High	52 week Low	Year ago (approx)
Australia (81)	199.13	4.8	194.37	134.28	153.96	175.45	3.3	3.82	196.56	192.80	133.09	152.80	174.85	199.13	157.95	163.75
Austria (26)	187.32	7.3	182.85	126.32	144.83	144.65	11.4	1.49	186.19	182.44	126.07	144.55	144.37	199.28	167.48	172.30
Belgium (34)	215.35	8.0	210.21	145.22	166.50	162.35	7.0	3.22	215.81	211.46	146.12	167.54	163.34	215.81	188.86	168.82
Brazil (28)	170.25	23.4	166.19	114.81	131.63	306.55	24.2	1.44	165.89	162.55	112.32	128.79	298.70	170.25	86.06	146.90
Canada (101)	157.18	5.9	153.42	105.99	121.52	156.38	6.7	2.40	156.57	153.41	106.01	121.55	155.87	157.18	124.68	124.68
Denmark (33)	299.20	3.6	292.06	201.76	231.33	234.05	7.5	1.40	298.95	292.92	202.41	232.09	234.79	302.74	252.41	257.90
Finland (24)	185.52	-0.8	181.10	125.11	143.44	177.54	4.1	1.79	181.81	178.15	123.10	141.15	174.13	276.11	171.13	185.40
France (99)	186.38	3.9	181.93	125.68	144.10	149.36	8.5	3.04	186.11	182.38	126.01	144.49	149.55	191.17	160.40	160.40
Germany (60)	170.45	4.1	166.38	114.94	131.79	131.79	8.2	1.82	170.28	166.84	115.29	132.19	132.19	171.28	140.78	140.78
Hong Kong (58)	447.68	15.5	436.99	301.88	346.13	444.40	15.5	3.19	442.50	433.57	299.61	343.53	439.23	447.68	293.20	293.20
Ireland (16)	258.12	1.0	251.96	174.06	199.57	231.57	3.3	3.31	257.84	252.64	174.58	200.17	232.04	262.70	205.44	208.89
Italy (59)	79.62	8.0	77.72	53.69	61.56	93.94	7.6	1.59	79.23	77.63	53.64	61.51	93.45	82.71	65.45	80.67
Japan (482)	152.71	-1.4	149.06	102.98	118.07	102.98	1.9	0.74	153.02	149.94	103.61	118.80	103.61	164.82	136.95	146.40
Malaysia (107)	520.84	7.4	508.41	351.22	402.70	512.01	7.9	1.68	510.19	499.90	345.44	396.06	502.43	561.98	419.47	419.47
Mexico (18)	1211.63	17.0	1182.71	817.06	936.80	9809.67	12.4	1.42	1205.58	1181.28	816.28	935.95	9767.29	1237.14	647.81	1061.78
Netherland (19)	274.73	0.7	268.17	185.26	212.42	208.83	4.7	3.13	272.97	267.46	184.82	211.92	208.26	280.49	218.81	219.81
New Zealand (14)	80.31	0.8	78.39	54.16	62.09	63.02	-2.6	4.61	80.61	78.98	54.58	62.58	63.36	85.49	72.27	73.77
Norway (35)	230.41	-0.4	224.91	155.38	178.15	203.00	2.4	2.06	227.60	223.02	154.11	178.70	201.32	243.79	202.76	215.08
Singapore (44)	458.61	12.8	447.66	309.25	354.56	299.68	12.9	1.34	451.20	442.10	305.50	350.29	295.19	458.61	342.37	348.06
South Africa (45)	437.76	13.6	427.31	295.20	338.46	349.31	13.8	3.37	429.46	420.80	290.78	333.41	342.73	437.76	297.82	297.82
Spain (37)	165.40	0.1	161.45	111.53	127.88	156.84	3.3	3.87	165.59	162.26	112.12	128.56	157.66	166.91	124.10	131.42
Sweden (47)	310.60	-0.5	303.18	209.45	240.15	319.64	4.4	1.88	306.80	300.61	207.73	238.18	316.27	324.31	232.23	239.83
Switzerland (36)	222.56	-5.7	217.24	150.08	172.07	168.16	-0.1	1.58	223.52	219.01	151.34	173.53	168.73	239.55	163.68	163.68
Thailand (46)	192.03	14.1	187.44	129.49	148.47	189.82	14.8	1.98	190.86	187.01	129.23	148.18	187.75	192.03	130.15	139.47
United Kingdom (205)	231.18	0.3	225.66	155.89	178.74	225.66	2.5	4.12	228.63	224.02	154.80	177.49	224.02	232.23	192.74	194.66
USA (632)	259.08	3.1	252.90	174.71	200.32	259.08	3.1	2.20	260.16	254.91	176.15	201.97	260.16	260.16	193.74	193.74
Americas (779)	236.96	3.5	231.29	159.78	183.20	189.16	3.5	2.20	237.78	232.99	161.00	184.60	199.87	237.78	178.23	178.23
Europe (731)	203.06	1.1	198.21	136.93	157.00	177.52	4.5	2.98	201.97	197.90	136.75	156.80	177.08	204.32	168.95	168.95
Nordic (137)	276.37	0.2	269.77	186.37	213.68	244.61	4.7	1.80	273.28	267.77	185.04	212.16	242.42	295.02	222.22	230.60
Pacific Basin (833)	166.28	0.6	162.31	112.13	128.56	115.10	3.4	1.16	166.12	162.77	112.48	128.97	115.43	171.87	145.95	152.91
Euro-Pacific (1564)	181.50	0.8	177.16	122.39	140.33	138.80	3.9	2.01	180.95	177.30	122.52	140.48	138.85	183.39	158.37	159.50
North America (733)	252.76	3.2	246.72	170.44	195.43	252.15	3.2	2.21	253.74	248.62	171.80	196.99	253.13	253.74	189.47	189.47
Europe Ex. UK (526)	183.24	1.6	178.86	123.56	141.67	150.54	5.6	2.35	182.84	179.16	123.80	141.95	150.58	184.61	151.42	151.42
Pacific Ex. Japan (351)	291.42	10.1	284.46	196.51	225.32	255.90	9.8	2.87	287.54	281.74	194.69	223.23	253.25	291.42	218.82	218.82
World Ex. US (1756)	183.53	1.5	179.14	123.76	141.90	143.29	4.3	2.04	182.87	179.19	123.82	141.97	143.23	184.71	156.72	160.00
World Ex. UK (2183)	204.24	2.3	199.36	137.73	157.91	171.78	4.0	1.91	204.39	200.27	138.39	158.68	172.19	204.39	166.62	167.65
World Ex. Japan (1906)	236.63	3.3	230.98	159.57	182.96	223.59	4.4	2.53	236.38	231.62	160.05	183.52	223.63	236.63	184.33	184.33
The World Index (2388)	206.64	2.1	201.71	139.34	159.77	176.63	3.8	2.11	206.57	202.41	139.87	160.37	176.90	206.64	169.20	170.0

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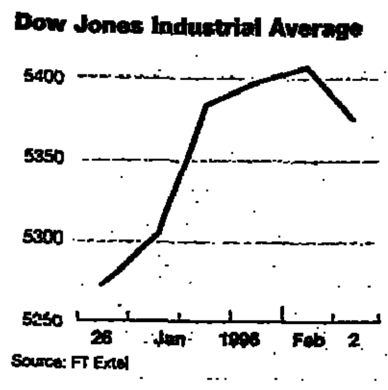
EQUITY MARKETS: This Week

NEW YORK
Maggie Urry

Focus returns to corporate earnings data



Source: FT Extel

After a record-breaking run for much of January, the equity market finally came to a halt last Friday, falling more than 80 points on the day on the Dow Jones Industrial Average index.

Even so, the market has already run a long way up this year, to levels which some had predicted would be as high as the Dow would go, breaching the 5,400 mark on Thursday last week.

The depressant on Friday was the bond market, where a sharp steepening of the yield curve came about through a fall in long-dated bond prices, lifting the yield on the 30-year Treasury bond to over 6.15 per cent.

The yield has not been that high since January 10, the day the stock market's latest rally began, with the Dow 340 points lower than Friday's close.

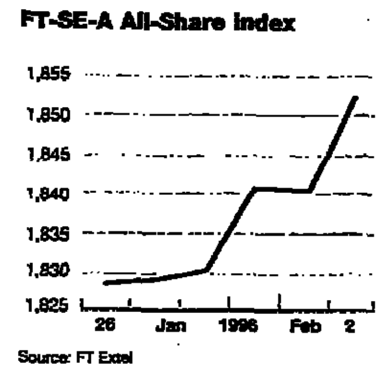
After last week's interest rate cut, the market's focus this week will turn back to corporate earnings, with the reporting season approaching its close.

Even so, a number of big names are expected to announce results this week. These include PepsiCo, Quaker Oats and Rubbermaid in the consumer sector; many of the healthcare groups; and some large industrial companies, such as Allied Signal, Westinghouse Electric and 3M.

There is little due in the way of economic news, but the bond market could remain uncertain until the three days of quarterly refunding auctions are out of the way.

LONDON
Peter John

Restrained by temporary oversupply



Source: FT Extel

With more than 220 trading days until Christmas, the London market is already hitting a number of UK equity strategists' year-end targets. It has joined the leading US and German indices to push ahead to new levels and it is hard to see where it can go in the short term.

Nevertheless, senior dealers believe there is more money waiting to go into the system and the market is merely restrained by temporary oversupply. Big placings in BAA and Enterprise, as well as disappointment with the Hanson demerger announcement, limited last week's rise.

One arbitrage dealer who looks at the flows of capital between the US and UK said: "The market is like a coiled spring at the moment. It could pop at any time."

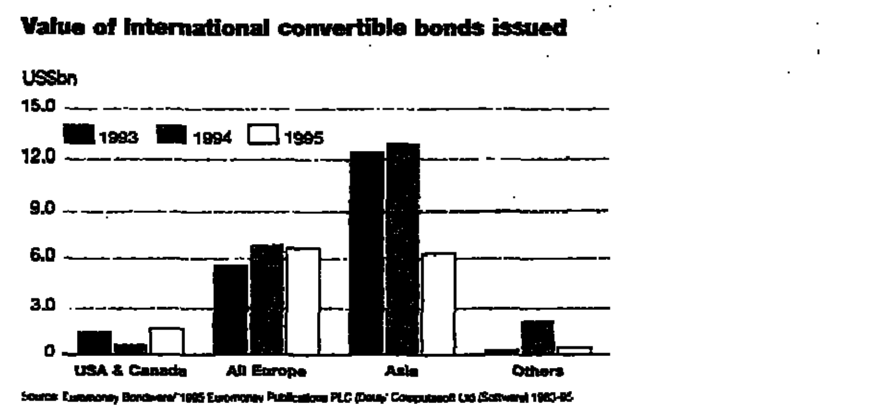
Certainly economic trends in the US, Germany and the UK suggest more cuts in the relevant interest rates will be made over the coming weeks. In London, the chancellor of the exchequer is meeting the governor of the Bank of England on Wednesday.

Most economists say it is far too soon for another loosening of policy and will be concentrating instead on Tuesday's industrial production and manufacturing output figures for December, which are forecast to come out either flat or lower as the effects of de-stocking take their toll.

Corporate analysts will be scrutinising third-quarter figures from British Telecom, due on Thursday.

International offerings

Hopes running high for convertible bond revival



Source: Euromoney Bondware/1995 Euromoney Publications PLC/Credit Commercial Ltd

Hopes are running high that 1996 will be the year of the convertible bond after a shortage of such issues in 1995.

The appetite is there because investors are more willing to give up some yield in return for an equity kick. Low bond yields, high share prices and the likely withdrawal of existing bond issues provide an ideal backdrop for companies looking to raise equity-linked funding on attractive terms.

The most talked-about offering – the Italian government's issue of bonds convertible into its remaining 34 per cent stake in the insurer, INA – has been delayed, but there has been a flurry of activity in recent weeks.

The most notable offering to date was a FFr3bn 10-year issue for Lyonnaise des Eaux, the French water and utility group. The offering was 15 times oversubscribed, reflecting pent-up demand for new convertible bonds. The bonds, issued at a price of FFr520 each, have traded as high as FFr542.

Lyonnaise's offering, the first from a French company since last spring, has fanned expectations that other issues could be forthcoming from France. Total, the oil company; Générale des Eaux, the construction and utilities group; LVMH, the champagne and luxury goods group; and Havas, the multi-media company, have all been mooted.

Bankers are also hopeful that issuance from the Netherlands, Italy and Switzerland will increase.

Activity in Asia is set to be buoyant after a poor 1995, when issuance dropped from \$12.9bn in 1994 to \$6.3bn, according to data supplied by Euromoney LoanWare.

The first offering of 1996 from the region was a \$130m deal from Paliburg, holding company of Hong Kong's Regal hotels group. This was quickly followed by issues from Indocement, the Indonesian cement group, and TPI Polene, a Thai chemicals company.

Further offerings are expected from the region, notably Thailand and South Korea – where Samsung ElectroMechanics, part of the Samsung group, is putting the final touches to an issue which should appear in the first quarter. Convertibles are also expected from India once next month's elections are out of the way.

Bankers say a lot of money is set to flow back into Asia after disruptions over the past two years and that fund managers are likely to opt for the defensive qualities of convertible issues in the first instance.

Last year, it was difficult for Asian companies to sell equity at any price because of unfavourable stock market conditions. But this year the opportunity to price convertibles at a premium to current share prices is back.

The high hopes of a bumper issuance of convertibles have also extended to the UK market, which faces heavy withdrawals this year – particularly of high-yielding bonds. Last week, Elf Enterprise Finance said it was repurchasing £407.8m worth of exchangeable bonds, the largest buy-back in the market to date.

The market also believes Hanson, which has announced plans to split into four companies, will call its £500m convertible bond in the summer. Last week Elf Enterprise's bonds were yielding 8.7 per cent while Hanson's bonds yielded 9.3 per cent.

Since the market is currently capitalised at about £12bn to £13bn, such a scale of redemptions is a worry for investors. Although some may look to Asia to replenish portfolios, they will have difficulty in finding paper with such high yields since Asian offerings carry low coupons. Investors also have the expense of hedging currency risk.

Several UK companies have been talked about as likely issuers of convertibles but bankers do not believe they will materialise. They say the corporate sector is cash-rich and the need for funding is light. Also, recent takeovers have shown that companies prefer to finance such ventures with straight equity or bank loans rather than through convertible bonds.

Continental Europe could also turn out to be a disappointment this year. Few French companies have acquisitions or projects they need to finance and some also feel that their share price is too low to make a convertible bond worthwhile.

Attempts to sell the convertible bond concept to the French government as a way to revitalise its privatisation programme also appear to have failed. "The government has been shown the idea several times by different banks but there are technical matters it is not comfortable with," said one banker.

Since so many banks are marketing convertible bonds, it is inevitable that fees will suffer. The current level of 2½ per cent is hardly sustainable if banks are willing to charge less to arrange privatisations in Latin America.

Antonia Sharpe

OTHER MARKETS

FRANKFURT

Metallgesellschaft, the trading, metals, engineering and chemicals conglomerate which has come back from massive US oil market losses, and near-bankruptcy in 1994, gives a progress report to analysts and the press today, *writes William Cochrane.*

After good 1995 figures recently from Lurgi, its plant engineering and construction division, Mr Michael Geiger of CS First Boston is expecting positive news.

Tomorrow, Degussa holds its first press conference and analysts' meeting since, in the opening days of this year, a story went around that Henkel could sell its 46 per cent of a pooled, 37 per cent Degussa stake for up to DM700m.

The chemicals, precious metals and pharmaceuticals group lifted pre-tax profits by 44 per cent in 1994-95 and expects another good result in the current year.

Preussag, due Thursday, has been one of the less ecstatic cyclicals on the Frankfurt market: it is heavily influenced by the German steel industry's fortunes and analysts will be cautious after last week's downbeat results from its competitor, Thyssen.

MILAN

The appointment of Mr Antonio Maccanico as prime minister designate last week has opened the way for a reappraisal of the Italian market.

Mr James Cornish at NatWest Markets believes a potential turning point has been reached in Italian politics. For the first time, there is broad agreement between the big parties of left and right on measures of constitutional reform and on the need to support an interim government during the 18 months of so before elections can be held under a new system designed to produce a strong executive.

Mr Maccanico is likely to pursue an economic policy on similar lines to that of his predecessor, Mr Lamberto Dini, but with more political clout.

Considerable uncertainties remain, along with a danger that the broad coalition might break up before its aims could be achieved. Political risk, the bane of Italian markets, is likely to diminish appreciably over the next few months.

Under the circumstances, Mr Cornish believes a period of outperformance for Italian equities and bonds can now be expected.

PARIS

The Bank of France may follow last week's 15 basis point cut in the intervention rate with another in the next few days, *writes John Pitt.*

Many economists want to see the intervention rate down to 3 per cent from 4.05 per cent and some believe this could be achieved by the early summer.

The government needs to push the rate down to stimulate growth, but with unemployment still rising it faces a tough few months.

James Capel notes that unemployment figures have risen for five successive months and expects the rate to breach 12 per cent in the second half of the year.

"In the coming months," says Capel, "weak growth and the continued rise in unemployment are likely to lead to periodic attacks on the franc, leading to the eventual abandonment of *franc fort* in the second half of the year."

STOCKHOLM

After last week's figures from Electrolux, the full-year reporting season continues this week with statements from Autoliv today, SKF on Wednesday and Ericsson on Thursday.

Paribas Capital Markets has downgraded the Swedish market to neutral from overweight, given the appreciation of the krona and destocking in Europe.

Both factors will have a cooling effect on fourth-quarter results, which are normally the strongest in the year.

Paribas says it expects Swedish bond yields to continue to fall in the first half of 1996, so interest rate-sensitive stocks should continue to outperform exporters. However, the termination of inventory run-downs or a stronger dollar might change its view.

HONG KONG

Stock prices are poised to move higher this week, with laggards continuing to push ahead, following the decision by the big three banks to cut interest rates – a move that followed the cut in the US, *writes Louise Lucas.*

Speculation that the banks would reduce their rates on Friday afternoon fuelled buying earlier in the week, and the Hang Seng Index closed Friday at a two-year high of 11,469.40.

Although the reduction, which takes the prime lending rate from 8.75 to 8.5 per cent, is already factored into the market, the weight of overseas funds pumping into the colony is likely to keep prices buoyant. On Friday turnover was HK\$9.57bn, three times the average seen for much of 1995.

On Thursday, Bank of East Asia announces final results. Although some of the smaller banks which have already reported have impressed the market, Bank of East Asia is likely to post flat net growth because of big one-off items included in the 1994 results.

TOKYO

While strong buying by overseas investors has supported steels and shipbuilders, share prices still remain vulnerable to selling by domestic institutions. Buying by foreigners will depend on the strength of US stocks, *writes Emiko Terazono.*

Bank stocks, meanwhile, are expected to face continued selling pressure due to the parliamentary deliberations on the housing loan crisis.

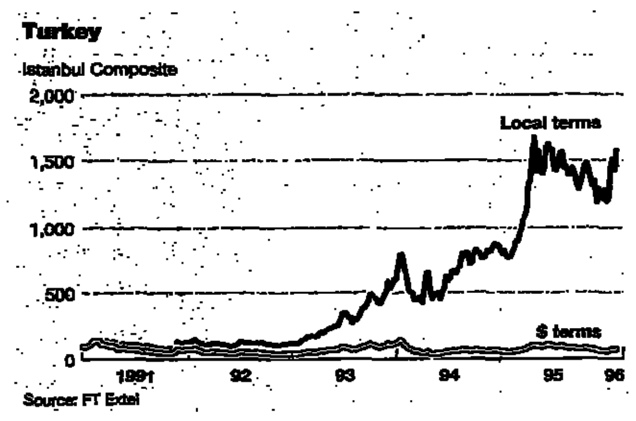
Some elders of the Liberal Democratic Party, the leading member of the ruling coalition, last week floated a plan to scrap the current bail-out scheme, spreading alarm throughout the government.

Compiled by Michael Morgan

EMERGING MARKETS: This Week

The Emerging Investor / **John Barham in Ankara**

Able to live with instability



Source: FT Extel

Someone who invested in Turkish stocks at the beginning of the year should be looking at gains of more than 20 per cent in dollar terms by today, in spite a rash of bad news that could have been dreamt up by a bad political thriller writer.

General elections at the end of December left a radical Islamist party as the largest party in parliament, the economy is heading for the rocks and President Bill Clinton's telephone diplomacy narrowly averted armed confrontation between Turkey and Greece last week.

Instead of crashing, share prices stormed ahead as the Istanbul market either discounted or simply shrugged off these alarming developments. On the day that tension between Greece and Turkey was at its highest, share prices actually rose.

"My clients actually like this sort of thing," said one Istanbul-based US broker. "Investors like to buy when things are looking really beat up, when there's a lot of gloom-mongering."

Even the prospect of a coalition government led by the Islamist Refah party only drove Istanbul market's IMKB index down one per cent. And that began looking less improbable on Friday when Mrs Tansu Çiller, the caretaker prime minister, announced she had given up trying to form a centre-right alliance.

The main reason for this year's rally is the irresistibly low prices. The market was in a slump for most of 1995. By the end of December, prospective p/e ratios had dipped to about 3 and 3.5.

In spite of a 27 per cent gain in the Istanbul market's IMKB index since the beginning of the year, equities still look cheap. Global Securities, a big Istanbul brokerage, puts the market's 1996 prospective ratios at just 4 to 4.5.

Declining interest rates and the central bank's success in supporting the Lira, Turkey's inflation-battered currency, further strengthened investor confidence. This has drawn emerging market funds into the market.

Last week, a \$10m program trade that originated in New York led a rally that drove the index up 3.5 per cent on the day that Turkey and Greece almost went to war over a rocky islet in the Aegean sea.

The mood in Istanbul's brokerages now varies between the perplexed and the mildly bearish.

The US broker, one of the perplexed, said: "After a rally like this you start losing any point of reference. With a 40-50 per cent gain in blue chips what should I tell investors now? Does Turkey look cheap or expensive?"

He is telling his clients "there are some very, very good companies that are massively undervalued. But the market has to be approached with real caution". He recommends stocks "you are willing to hold come hell or high water" like Raks, a maker of music cassette tapes, and Ardem.

However, he is also advising investors to diversify into bonds, where a combination of still-high interest rates and the central bank's strong Lira policy offer attractive opportunities.

Even though last week's auction for treasury bills was heavily oversubscribed, the government still had to pay interest equivalent to 37 per cent a year in real terms.

However TEB's Mr Serhat is a bear. "I do not advise foreigners to buy. There are too many ifs."

Although 1995 company results were good, he warned the "market is discounting poor first quarter results". One of his few recommendations are media groups, which have pushed through advertising price increases as well as boosting circulation by whipping up nationalist fervour during the confrontation with Greece.

Yet it is surprising that there are no cassandras predicting a market collapse. After all, the country has been almost rudderless because no party has managed to put together a coalition government since the December elections. The economy is adrift with heavy inflation and the government's domestic debt spiralling upwards. To make things worse, the fundamentalists of Refah now look poised to take power.

However, Turks are used to living with instability, and local retail investors are estimated to hold about 80 per cent of the market.

Many scoff at fears that a Refah-dominated government could seriously threaten Turkey's secular, market-oriented and pro-western traditions. On the contrary, there are many who think that it will provide a measure of responsible government and could even adopt some tough stabilisation policies.

Although the powerful Istanbul business community pushed hard for an alliance between Mrs Çiller's conservative True Path party and the opposition conservative Motherland party, personal and political rivalries have prevented a coalition even though both parties have no important policy disagreements.

Now business and western governments are becoming resigned to seeing Mr Necmettin Erbakan, Refah's leader, becoming prime minister. One businessman said: "As long as Motherland controls the economic ministries we don't really mind a Refah government. The Motherland party has an outstanding economics team with good international contacts."

A western diplomat added: "We are telling our government that we will have to learn to work with [a Refah government]. They were in government before in the 1970s and Turkey did not disappear."

News round-up

■ Africa

Uganda and Tanzania could have operational stock exchanges by the middle of the year.

The first flotation in Kampala, that of Uganda Grain Millers, is likely to be next month, and an equity market is due to be created in Dar es Salaam by June 30. In Tanzania the first two flotations are expected to be Tanzania Breweries and Tanzania Cigarettes, while Tanzania Oxygen is also in line for privatisation.

■ Turkey

Two regional stock exchanges could be established in the Aegean city of Denizli and the south-eastern city of Gaziantep later this year. The country's main bourse in Istanbul was launched in 1986 and its market capitalisation has risen to \$22.6bn.

■ Senegal

The parliament has approved the partial privatisation of Sonatel, the telecommunications company. A stake of 67 per cent will be on offer.

■ Russia

The finance ministry is to issue Rbs1,500bn of gold-backed certificates at the end of February or start of March. The three-year securities, backed by 30 tonnes of gold, will have yields in line with dollar-denominated MinFin bonds. Medium and long-term MinFins yield about 18 to 20 per cent at present.

Non-residents will be allowed to buy unlimited amounts of the securities, using "T-accounts". T-accounts enable holders to repatriate funds, unlike I-accounts, used by foreign investors in Treasury bills and other securities, which prevent holders from repatriating profits from short-term securities transactions.

● Non-residents will not be able to take part in government securities auctions on February 7, although the authorities had agreed in principle to let them take part this month. The finance ministry will offer Rbs6,500bn in three-month T-bills and two billion roubles in two-year government bonds in the auctions on February 7.

■ S.Korea

Approvals for overseas investments by South Korean companies rose by 37 per cent in 1995 to \$4.9bn, the third consecutive yearly rise, the ministry of finance and economy has said. Approvals awarded last December totalled \$955.2m, up from \$325m a year earlier. The US and China remained the main destinations for South Korean investments in 1995.

■ Asia

The Asia/Pacific region will lead the world in producing electronic devices by 2000 as its middle-class increases and becomes wealthier, says Dataquest, the US market research company. The middle classes in Hong Kong, Singapore, the Philippines, China, South Korea and Taiwan are expected to rise by a combined 8 per cent by 2000, twice as fast as the rest of the world. "Some of those people will start electronics companies," says Dataquest.

■ Peru

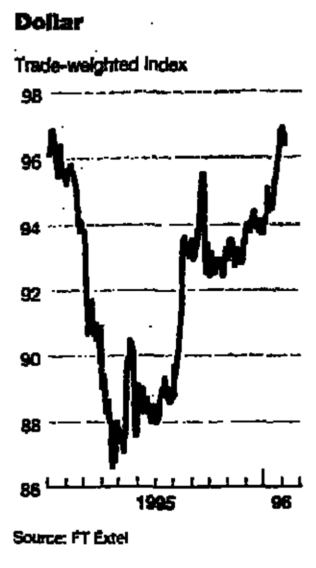
Blue chips surged last month as foreign institutions, who had been absent for most of January, regained their nerve in the last two weeks, *agencies report.*

The index of 15 leading shares climbed 9.8 per cent to 1,851.92 during the month. The general index rose 1.8 per cent to 1,266.41. Turnover jumped to \$642.83m, or an average daily trade of \$29.2m, against \$369.82m in December.

● *Edited by John Pitt. Further coverage of emerging markets appears daily on the World Stock Markets page.*

CURRENCY MARKETS
Philip Gawith

Market watches German data



Source: FT Extel

With exchange rates currently being driven by perceptions about the relative growth patterns of Europe and the US, and their knock-on effect on interest rates, the focus this week is likely to be on various German economic releases.

Bonn is releasing industrial output data, unemployment figures, and a cost of living index. These could shed some light on the Bundesbank council's decision last Thursday to leave official rates unchanged, while fixing the repo rate ten basis points lower for the next two weeks at 3.30 per cent.

The general expectation is that the figures will confirm the weakness of the German economy, leading to another fall in interest rates. Industrial production is expected to be weak, while some economists expect unemployment to reach the 4m level.

If German data looks likely to be dollar positive, then the same can be said for the release of US trade statistics for November. Due on Wednesday, these are expected to show further improvements in favour of the US, which supports the dollar.

While underlying sentiment towards the dollar remains positive, there is some concern at its continued inability to break through DM1.50, despite the positive conjuncture of events. When a currency repeatedly fails to make progress in one direction, markets tend to conclude that it should go in the opposite direction. It is this concern that is beginning to be heard.

Analysts at New Japan Securities in London cite two reasons why the dollar's rally should continue, unlike in 1994 and 1995 when it fell despite the majority view that it would rally. First, the downturn in the German business cycle is expected to keep interest rates low, which should keep the D-Mark weak. Second, the increasing market attention being given to the budget deficits in Germany and Japan is likely to keep the D-Mark and yen under pressure.

Elsewhere, analysts will be trying to assess the implications of the rally in the gold price, which has so far lent support to the Australian dollar, with the New Zealand dollar rallying in sympathy.

ING Baring Securities Emerging Markets Indices

Index	2/2/96	Week on week movement Actual	Week on week movement Percent	Month on month movement Actual	Month on month movement Percent	Year to date movement Actual	Year to date movement Percent
World (395)	161.76	+3.96	+2.51	+14.41	+9.78	+14.20	+9.62
Latin America							
Argentina (22)	102.22	+0.79	+0.78	+9.44	+10.17	+9.44	+10.17
Brazil (23)	223.43	+14.11	+6.74	+37.37	+20.09	+37.33	+20.06
Chile (16)	188.22	+0.99	+0.53	-7.52	-3.84	-7.45	-3.81
Colombia (14)	164.73	+14.12	+9.37	+1.15	+0.71	+0.48	+0.29
Mexico (23)	83.04	+1.12	+1.37	+9.72	+13.25	+9.44	+12.83
Peru(14)	1,128.48	+49.62	+4.60	+74.38	+7.06	+58.53	+5.57
Latin America (112)	137.63	+4.68	+3.52	+14.73	+11.98	+14.49	+11.77
Europe							
Greece (18)	105.27	+0.47	+0.45	+8.28	+8.53	+7.30	+7.45
Portugal (20)	127.18	+3.56	+2.88	+10.89	+9.37	+10.73	+9.21
Turkey (26)	103.05	+7.63	+7.99	+22.52	+27.97	+20.25	+24.46
South Africa (32)	173.76	+1.30	+0.75	+19.92	+12.95	+20.41	+13.30
Europe (96)	137.58	+1.83	+1.35	+16.02	+13.18	+16.02	+13.18
Asia							
China (24)	46.62	+0.31	+0.67	+6.09	+15.04	+6.30	+15.62
Indonesia (32)	158.25	+5.96	+3.91	+19.99	+14.48	+19.61	+14.14
Korea (23)	134.83	+4.21	+3.23	-2.07	-1.51	-2.07	-1.51
Malaysia (24)	242.14	+7.95	+3.40	+15.49	+6.83	+14.77	+6.50
Pakistan (14)	79.98	+0.08	+0.10	+8.88	+12.49	+6.39	+8.68
Philippines (14)	297.31	+4.78	+1.63	+40.20	+15.63	+38.14	+14.72
Thailand (25)	276.43	+5.78	+2.13	+24.59	+9.77	+24.54	+9.74
Taiwan (31)	122.00	-3.10	-2.48	-9.24	-7.04	-8.82	-6.74
Asia (187)	215.27	+4.52	+2.15	+12.55	+6.19	+12.22	+6.02

All indices in $ terms. January 7th 1992=100. Source: ING Baring Securities.

WORLD BOND MARKETS: This Week

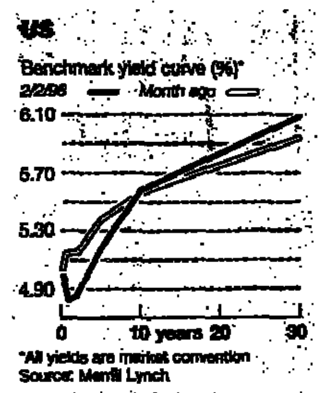
NEW YORK — Maggie Urry

The bond market ended last week on a down-beat, with the yield curve steepening sharply as long-dated stocks fell. The yield on the long bond had risen to around 6.15 per cent by late Friday.

Traders blamed profit-taking after the cut in interest rates on Wednesday and selling ahead of this week's record quarterly refunding auctions. The Treasury plans to sell $44.7bn of paper, of which $13.2bn will be new. Tuesday brings $18.5bn of three-year notes; Wednesday $14bn of 10-year notes, and Thursday $12bn of 30-year bonds.

Fortunately, an agreement between politicians over raising the government's $4,900bn debt limit by the end of the month should prevent a government default.

The sell-off in longer-dated bonds last week came despite generally weak economic news; which should be good for bonds since slow economic growth usually brings further interest rate cuts.



This week will bring little further news to give the market direction. On Wednesday, November balance of payments data are unlikely to generate much interest.

Consumer credit figures for December will be published the same day. MMS International sees the growth in credit at around $8.5bn, slightly below November's. Thursday's unemployment claims figure is forecast at 380,000, against 388,000 a week earlier.

LONDON — Antonia Sharpe

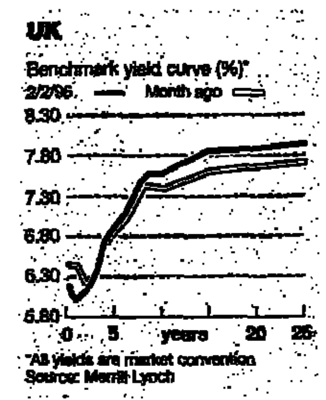
Economic data this week should be broadly supportive of the UK government bond market, allowing the 10-year yield spread over Germany to remain at or come in slightly from last week's level of 170 basis points.

Today's provisional M0 data for January is expected to fall by about 0.3 per cent, for a yearly rise of 5.8 per cent. "The fall back in M0 growth should indicate that consumer spending is weaker," says Mr Don Smith of HSBC Markets.

Tomorrow's industrial production data for December is forecast to show a small rise of 0.3 per cent, for an annual rise of 1.5 per cent, but analysts expect the more important manufacturing component to remain flat.

"There is no reason to expect the trend to change – demand has weakened and stocks remain high," says Mr Simon Briscoe of Nikko.

Meanwhile, the CBI distributive trades survey for January, due on Friday, should



provide further insight into the retail sector.

Analysts do not expect an interest rate announcement after Wednesday's meeting between the chancellor and the governor of the Bank of England but this week's data will be closely watched for an indication of whether rates need to fall further. If they continue to show the economy is weakening, a quarter-point cut in the base rate to 6 per cent is on the cards for March.

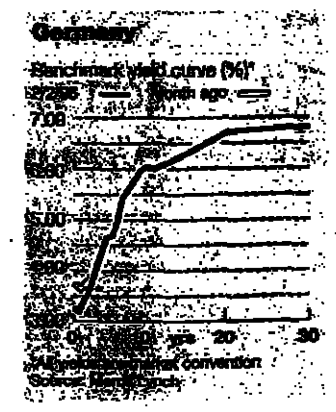
FRANKFURT — Wolfgang Münchau

The 15 basis point cut in the German securities repurchase rate (repo) to 3.3 per cent last week has led to intense speculation about the next round of cuts in the discount and Lombard rates, although there are also rumours that January M3 money supply will break through the Bundesbank's pain threshold.

The repo rate is perilously close to the 3 per cent discount rate, which would normally suggest a discount rate cut is a growing possibility.

One of the factors influencing the Bundesbank's on whether to cut the discount rate is the M3 figure, due to be released on February 18. There is speculation that M3 might have risen by more than 10 per cent, which would dampen, though not eliminate, the chances of further rate cuts.

Despite the falling repo rate, the yield curve has become steeper since the beginning of the year, reflecting expectations of higher rates in the medium term. This is



fuelled in part by debate in Bonn about economic stimulus and jobs programmes, which should result in a looser fiscal and tighter monetary policies.

A similar mix of policy is also implied by gossip that European Monetary Union may be postponed, which in turn would free up some of the external constraints placed on fiscal policy. The diverging short and long-term expectations balance each other out to some degree.

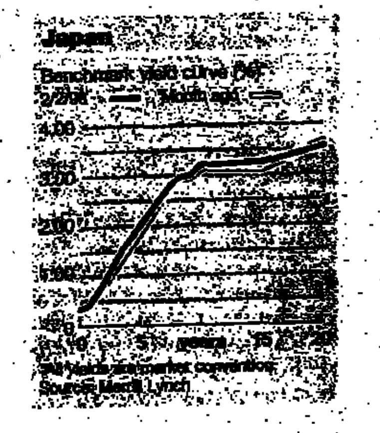
TOKYO — Emiko Terazono

Market participants are becoming increasingly wary over the rise in fund procurement ahead of the March year-end, which is pushing up short-term interest rates. Rates on three-month instruments have gradually risen over the past few weeks.

Concerns are also mounting that the increasing demands of the Pension Fund Association and the Japan Federation of Employers Association for an easing in pension fund management regulations will hurt government bond prices.

Currently, pension fund managers must keep at least 50 per cent of managed assets in government bonds or government-guaranteed assets. Funds allocated to domestic stocks must not exceed 30 per cent while foreign assets and real estate must be less than 30 per cent and 20 per cent respectively.

Rules requiring pension funds to entrust at least two-thirds of their assets to life insurance or trust banks are



also set to be eased, allowing up to half of assets to be entrusted to asset management companies, including foreign managers.

"If this deregulation is enacted, it could cause a significant shift away from JGBs towards domestic stocks and foreign assets," says SBC Warburg in Tokyo.

Funds have been flowing overseas since rules were eased for foreign bond investments in August.

Philippine bonds

Overseas interest in domestic debt mounts

The debut auction of seven-year government bonds in Manila last month has unleashed a wave of speculation on when the Philippine government will issue its first 10-year bonds.

Judging by the rapid growth of the government debt market in the last two years and the oversubscription rate for the first seven-year offering in January, 10 and even 20-year bonds may not be long in arriving.

Until 1993, the maximum maturity on Philippine government bonds was one year. Since then, the country's economic turnround and the gradual liberalisation of the capital markets has led to a strong increase in overseas interest in Philippine domestic debt. This has been tracked by the lengthening of maturities of government debt.

"We expect the first 10-year bills to be issued later this year or early next year," said Mr Roman Azanza, chairman of the state-appointed capital markets development council in Manila.

"We also expect Philippine dollar debt to be awarded investment grade rating by the US credit rating agencies sometime in 1996."

Last year Standard & Poor's, Moody's Investor Services and Duff & Phelps all upgraded Philippine sovereign debt to one rung below investment grade. Barring any mishaps – such as a return to high inflation, which remains a risk – the government hopes to pass that threshold this year and a deepening of the Philippine corporate bond market is expected to follow.

Government officials, however, admit that many changes need to take place before Manila can attract serious overseas financing for peso-denominated debt.

At the moment, for example, no real secondary market exists. Private bonds – unlike government paper – are also subject to both capital gains tax and 20 per cent withholding tax. This makes the Philippine stock exchange more attractive for the time being. Over 80 per cent of private capital is still raised through rights issues and IPOs.

Reforms set in train by Manila's Securities and Exchange Commission (SEC) and the capital markets development council in Manila last year are expected to come on stream in the next 12 months.

The establishment of a central depositary system and a separate clearing house for securities trading is scheduled for June. Companies issuing debt will be required to move to a full disclosure practice normal in other countries. This will replace the existing "merit" system, where the SEC evaluates a company's profile for the investor.

With the help of the first tranche of a US$150m loan from the Asian Development Bank to be disbursed later this year, other developments will follow.

These include setting up an options exchange, to provide hedging facilities; creating a national home mortgage financing house, which would boost liquidity for longer-term securities; and an electronic listing screen for bonds, initially serving only as an index rather than a trading screen.

Discrimination against overseas investment in the growing mutual fund industry is also expected to be scrapped this year. By 1997, foreign mutual fund houses will be able to set up in Manila and foreigners will also be allowed to sit on the board of local unit trust companies. This, it is hoped, will boost the mobilisation of domestic savings.

"What we need to do is increase liquidity and savings so that a secondary debt market can begin to take shape," said Mr Jaime Ladao, president of the Credit Information Bureau, Manila's only rating agency.

"There is also a strong pent-up demand for longer-term debt. Private securities will obviously have to follow the maturity on government debt," he added.

Foreign investors, including the growing roll-call of insurance companies and foreign banks setting up in Manila, say demand for longer-term government debt is not lacking.

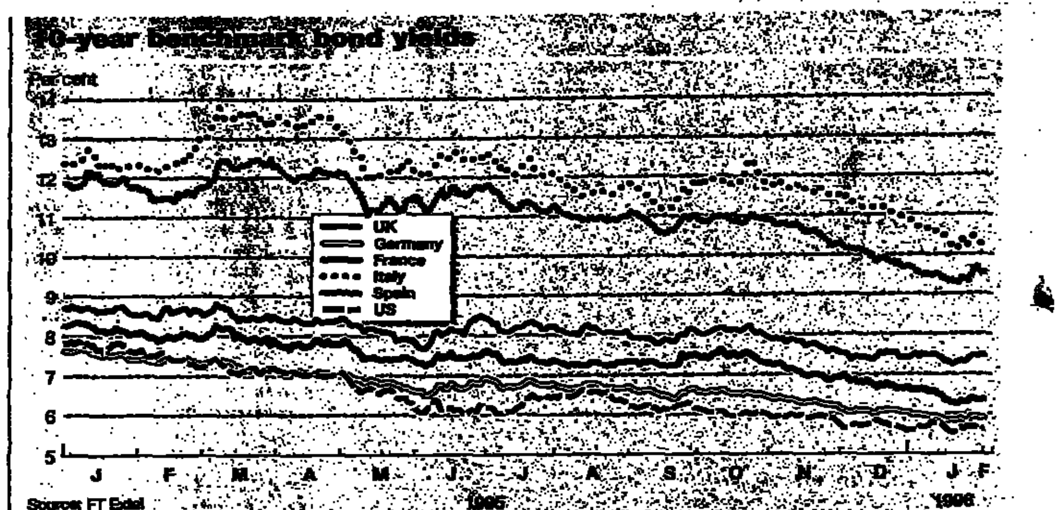
Once the double-taxation anomaly has been removed, interest in longer-term commercial securities is also expected to rise.

"About one-quarter of our local portfolio is in Philippine government T-bills," says Mr Ian Roberts, chief investment officer at Sun Life Assurance (Canada). "What we need to do, however, is match our investment needs with our long-term liabilities, which can stretch more than 20 years. At the moment, restrictions on investing our funds abroad means that the longest we can plan ahead is seven years."

But investors do not rule out the possibility of setbacks on the road to the development of Philippine capital markets. Inflation, which at 10.9 per cent last month remains high, is expected to rise marginally this year after excessive broad money growth in 1995.

The pricing of last month's seven-year bonds to yield 15.50 per cent reflected that inflation risk. Any further rises in the rate of headline inflation might prompt the government to reconsider the cost of issuing longer-term debt.

Edward Luce



Discount	[illegible]
Overnight	[illegible]
Three month	[illegible]
One year	[illegible]
Five year	[illegible]
Ten year	[illegible]

US TREASURY BOND FUTURES

	Open	Sett price				
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Syndicated loans

Recent successes highlight liquidity

The international syndicated loans market is still buoyant, and the heavy oversubscription of several recent transactions highlights its abundant liquidity. "Sentiment is still very bullish," said one banker. "Provided pricings are realistic, demand for assets is still huge."

In the UK alone, four transactions this week were substantially oversubscribed. A £150m five-year term loan for EBS Building Society, a leading Irish building society, was increased to £250m and the £250m five-year facility for Minorco Finance, the UK subsidiary of the natural resources group, attracted some £450m and was increased to £350m.

BPB Industries, the gypsum and plasterboard maker, closed its five-year revolving credit facility. The deal, consisting of a D-Mark tranche and a sterling tranche totalling £275m, was increased to £350m after raising £390m.

Several acquisition-related deals have also kept bankers busy. **Racal Electronics'** three-year revolver to fund its purchase of BR Telecommunications was closed last week after attracting £600m. Despite the oversubscription, the deal was left at £400m.

Farnell Electronics has mandated NatWest to arrange a £580m 5½-year US dollar-denominated facility to help finance its £1.85bn acquisition of Premier Industrial Corp of the US. Syndication is set to be launched on February 16.

Persimmon, the British house builder, is raising a £160m bank loan to help fund its £170m bid for Ideal Homes, the Trafalgar House subsidiary. Hambros Bank, Lloyds Bank, Royal Bank of Scotland, Société Générale and Yorkshire Bank are said to be providing the loan, which may be syndicated later.

Unichem, the UK pharmaceuticals wholesaler bidding for rival pharmacist and drugs wholesaler, Lloyds Chemists, has asked BZW and NatWest to arrange a £400m loan. The facility, whose terms remain undisclosed, has been fully underwritten by Barclays and NatWest and will be launched into general syndication once the bid goes through.

Elsewhere, Sweden's **Incentive Treasury** mandated Deutsche Morgan Grenfell and Enskilda to arrange a $1bn multi-currency revolving credit facility to support its acquisition of the remaining publicly held Gambro B shares.

A seven-year revolver was launched for **Outokumpu Oy**, the Finnish metals and mining group, via Chemical Bank, Citibank, Den Danske Bank, Merita Bank and UBS. It pays a margin of 22.5 basis points in the first five years and 27.5 for the remaining two. Commitment fees are 11.25 and 13.75 basis points, respectively.

ED&F Man, the fund management and derivatives and commodities broking group, launched an $800m five-year revolver via ABN AMRO Bank, Chemical, NationsBank, Rabobank and Société Générale. It pays a margin of 12.5 basis points in the first three years and 15 basis points for the remaining two.

Smurfit International launched a FFr3bn, seven-year multicurrency revolver via Chemical Bank paying 22.5 basis points for the first five years and 27.5 for the remainder. Commitment fees are 10 and 12.5 basis points, respectively.

Creditanstalt's fully-owned Hungarian subsidiary Creditanstalt Rt launched a $55m five-year transaction paying 62½ basis points over Libor via CS and Mitsubishi Trust.

Senegal's Sonacos, the world's largest ground-nut oil exporter, signed a $40m pre-export trade facility paying a margin of 135 basis points, down from the 150 point spread on its debut loan last year.

The **Hellenic Republic** is expected to launch a $500m seven-year facility – its longest yet in the coming weeks.

An ongoing $45m five-year transaction for **ERT**, the state holding company which owns Greece's radio stations, is expected to set a new benchmark for Greek borrowers. It pays 57½ basis points and up-front fees of 40 points to lead managers, 37½ points to managers, 35 points to co-managers and 30 points to participants.

Meanwhile, last week's award of the mandate for a $1.2bn loan to **Equate**, the US-Kuwaiti joint venture to build the Gulf's biggest petrochemical project, has highlighted the potential of the Middle East for the growth of project finance.

That deal, priced at less than 200 basis points over Libor for the $700m, 8½-year tranche from regional and international banks, has been financed without cover from an export credit agency.

Conner Middelmann and Martin Brice

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book runner
US DOLLARS							
Optec Dai-Ichi Denco Co.(a)ф	100	Feb.2000	2.125	100.00	-	-	Yamaichi Intl.(Europe)
SMC Corp.(b)ф	300	Feb.2001	3.125	100.00	-	-	Nikko Europe
United Mexican States	1bn	Feb.2001	9.75§	100.00R	9.750	+445(5¼%-01)	Merrill/JP Morgan
Hellenic Republic‡	210	Feb.1999	(c)	100.09R	-	-	CS First Boston
CCDO(d)‡	150	Mar.2001	(d1)	100.00R	-	-	Citibank International
World Bank★	100	Feb.1997	4.40	100.50	3.881	-	Nomura International
Merrill Lynch & Co.(e)‡	100	Feb.2000	(e1)	99.75R	-	-	Merrill Lynch Intl.
Landesbank Rheinland-Pfalz	200	Feb.2001	5.50	99.70R	5.570	+14(5¼%-01)	Daiwa Europe
Banco de Boston(m)	110	Feb.2004	(m1)#	99.955R	9.150	+412(5%-98)	Bank of Boston
National Australia Bank‡	500	Feb.1997	(o)	99.99	-	-	BZW/Morgan Stanley
Argentaria Global Finance(q)‡	300	Feb.2001	(q1)	99.85	-	-	Deutsche Morgan G'fell
Merrill Lynch & Co.(r)‡	50	Feb.2000	(r1)	99.75R	-	-	Merrill Lynch Intl.
Ford Credit Australia	100	Mar.2001	7.75	100.895	7.529	-	Toronto Dominion Bank
Merrill Lynch & Co.	150	Feb.1999	5.50	99.91R	5.533	+40(5½%-98)	Merrill Lynch Intl.
National Grid Group(y)	300	Feb.2001	5.50	99.603R	5.593	+30(5¼%-01)	Goldman/JP Morgan
D-MARKS							
EBRD	1b	Feb.2001	4.875	99.64R	4.958	+27(5¾%-00)	BZW/Nomura(Deutsch)
Spintab‡	400	May.2001	(f)	99.925R	-	-	CSFB-Effectenbank
GZB‡	300	Feb.2006	(g)	99.87	-	-	DG Bank
CLF Hypo. Berlin(h)‡	200	Feb.2001	(h)	100.13	-	-	Baden-Würt. Bank
DePfa Bank(p)	2bn	Feb.2003	5.625	99.714R	5.676	+18(7¼%-03)	Commerz/M.Stanley
Cadbury Beverages Canada(j)	300	Feb.2001	5.125	99.59R	5.220	+53(5¾%-00)	Deutsche Morgan G'fell
IMI Bank Intl. (Cayman)‡	200	Feb.2001	(n)	99.953	-	-	SBC Warburg
Morgan Stanley Group‡	400	Feb.1999	(l)	99.88R	-	-	Morgan Stanley Bank
City of Copenhagen	100	Mar.2006	6.125	99.815R	6.150	-	DKB (Deutschland)
KfW	2.5bn	Feb.2006	6.00	98.831R	6.160	+23(6%-06)	Dresdner/WestLB
Nordic Investment Bank	500	Mar.2001	4.875	99.588R	4.970	+32(5¼%-00)	ABN Amro/UBS
Volkswagen Car Lease No.1‡	500	Jan.1999	(u,v)	100.00R	-	-	Deutsche Morgan G'fell
Federal Natl.Mortgage Assoc.	750	Feb.2001	5.00	99.926R	5.017	+33(5¼%-00)	Deutsche/Merrill Lynch
Omnicom Group‡	100	Mar.1999	(z)	99.67R	-	-	Morgan Stanley Bank
SWISS FRANCS							
European Investment Bank	250	Mar.2006	4.50	102.80	4.152	-	Credit Suisse
Northeast Finance	100	Mar.2003	4.25	103.125	3.734	-	Bank of Tokyo/SBCW
North East Finance(v)	100	Mar.2003	4.25	103.125	3.734	-	Bank of Tokyo/SBCW
Bank Austria(s)	75	Nov.2000	3.50	102.50	-	-	del Gottardo/Merrill
FRENCH FRANCS							
Bayerische Landesbank‡	1bn	Mar.2006	(l)	99.85R	-	-	Société Générale
ITALIAN LIRE							
Republic of Argentina	350bn	Mar.2001	13.25	99.50R	13.39	-	Credito Italiano
STERLING							
Japan Development Bank(s)	200	Jun.2003	7.375	99.305R	7.512	+20(8%-03)	HSBC Mkts./SBCW
PM No.1, Class A1(w1)‡‡	250	Jul.2037	(w2)	99.96R	-	-	NatWest Capital Mkts.
PM No.1, Class A2(w3)‡‡	200	Jul.2037	(w4)	99.95R	-	-	NatWest Capital Mkts.
PM No.1, Class A3(w5)‡‡	200	Jul.2037	(w6)	99.95R	-	-	NatWest Capital Mkts.
Royal Bank of Scotland	200	Dec.2007	7.875	99.889R	8.069	+27(7¾%-07)	UBS
Commerzbank Overseas Fin(p)	100	Dec.2001	7.00	98.58R	7.324	+17(7%-01)	Hambros Bank
AUSTRALIAN DOLLARS							
PepsiCo	100	Feb.2001	7.10	100.00	7.100	-	IBJ International
New Sth.Wales Trsy. Corp.★	100	Feb.2001	7.375	100.505	7.231	-	Hambros International
Kommunekredit	100	Feb.1998	6.625	100.00	6.62	-	[illegible]
ECUS							
Kreditanstalt Int. Finance(d)	45	Feb.2005	(k1)	102.00	-	-	Kreditbank Intl.Group
PESETAS							
European Investment Bank(i)	15bn	Feb.2001	8.90	102.13	8.355	-	Argentaria
World Bank	15bn	Feb.1998	8.25	101.195	7.563	-	Bco. Central Hispano
CANADIAN DOLLARS							
Rabobank International(b)	100	Dec.2001	6.375	99.375R	6.534	-37(7%-01)	ScotiaMcLeod
De NIB(g)	100	Dec.2001	6.625	100.325R	6.56	+13(7¼%-01)	ScotiaMcLeod Intl. Group
GMAC Canada(p)	100	Dec.2001	6.75	99.58R	6.812	+15(7¼%-01)	BZW
Province of Manitoba	700	Apr.2001	Zero	72.675R	6.376	-	Dominion Securities
DANISH KRONER							
Kingdom of Sweden(f)	400	May.2002	6.50	102.50	6.00	-	Bank Brussels Lambert

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. [illegible]

SPORT / ARCHITECTURE

Rats rule while Panthers prowl

Keith Wheatley reports on a Florida ice hockey team and their unlikely mascot

Rats are a bit of a no-go subject around the Florida Panthers. No self-respecting ice hockey team – especially one with a fair chance of winning the National Hockey League – wants their image all mussed up with rodents and stuff. After all, why choose a sleek, carnivorous name like the Panthers and then allow it to be tarnished by association with the loathed genus *rattus*?

It is clear that the Panthers' management is a little stressed about this. An hour before a recent Wednesday night game at the Miami Arena, front-of-house staff were issued with a briefing paper with a section headed: "Instructions on rat-throwing". This concerned prevention of said rat-throwing, not coaching in some obscure ice hockey technique.

The Panthers and their opponents, the San Jose Sharks, had been on the ice barely five minutes when the commentator launched into a well-rehearsed lecture urging the 12,000 spectators to keep their rats in their pockets. "Throwing soft toys and other objects on to the rink could injure participants and cause delays to the game. We thank you for your co-operation," said the humourless voice.

Some chance. When Panthers forward Scott Mellanby slammed an opportunistic goal past the Sharks goalkeeper, the air was full of flying rats. Some sported a full acrylic pelt. Others were small and rubbery, red or white. A huge inflatable rodent poked his snout over the barrier separating the crowd from the ice.

Delays are not an issue at the Miami Arena. For six months the rats have been such a feature of the Panthers' home games that a well-drilled squad of youngsters skates on to the rink towing large plastic bins to collect the hundreds of rodent tributes. Backstage, they sort them eagerly, looking for novel designs. It takes barely 90 seconds before the game restarts.

San Jose were outclassed, defeated 3-1 by a Panthers team that was slicker, faster and never looked like losing. Not surprisingly, the Florida team led their division for several months before Christmas, had the best statistics in the league, and are at present second only to the mighty New York Rangers, with several games in hand.

Yet the NHL's form books say this should not be happening. The Panthers are barely three years old, and full of rookies and older, free-transfer players, rather than NHL stars. Coach Doug Maclean is in his first year managing a major league team.

Enter the rat.

It was early evening last August 10, an hour or two before the first game of the season, against the Calgary Flames. The Panthers were changed, ready for the ice, sitting on benches, chatting nervously. A rat ran into the room, right in front of Mellanby, who was holding his stick.

The 29-year-old former Edmonton Oiler reacted instantly with what hockey players call a slapshot. "I one-timed it," said Mellanby later. "I wasn't even thinking. The rat flew across the room, dying instantly as it hit the far wall. Everybody got pretty nervous and excited." A team-mate drew a circle on the wall and wrote: R.I.P. RAT 1.

Mellanby went on to the ice and played the game of his life, scoring two of the goals in the Panthers' 4-3 win. Amid the post-match euphoria, a team-mate told a Miami Herald sports writer that "Scott had scored a rat-trick", and the story was out. Next home game, the rodents started to fly out on to the ice – and the goals kept coming.

By mid-season the Panthers had an enviable record, with 13 wins, four draws, no losses. Better than the Rangers, the Pittsburgh Penguins or the New Jersey Devils. Better than any other team. The media flocked to south Florida and the legend grew.

Maclean, who has a psychology MA but relatively little coaching experience and has never even played NHL hockey, told reporters that his philosophy was to take chances by giving the younger players maximum ice-time.

In the Panthers' first two seasons his predecessor, Roger Neilsen, had fielded a succession of dour defence-minded veterans whose primary aim was to keep the scoreline low. Maclean immediately blended youthful passion with league experience.

He says: "I sensed right away from day one of training camp that we were going to compete in a lot of games because we had two strengths – good quality leadership and a good core group of kids. There's no substitute for the knowledge the veterans bring to the tactics and shape of a game."

Interviewers know better than to bring up mumbo-jumbo about rats with a behaviourist such as the head coach. Maclean feels that the whole business distracts from the solid, hard-won achievements his team have put together on the ice, and that however important rat-killer Mellanby is to the team, he has done no more than star goalie John Vanbriesbrouck.

Other anti-rodent forces are at work. Panthers owner Wayne Huizenga is talking about selling the NHL franchise and letting it leave Florida. Part of this is tactical bluff, hoping to put pressure on neighbouring Broward County to build a new stadium that will allow the Panthers to move out of the Miami Arena, which they share with the local basketball team.

Yet national interest in the team's ownership is real. Potential bidders from Nashville and Portland have already been talking $75m offers to Huizenga, who also owns the Miami Dolphins football team. When the marketing consultants start to crawl across a possible deal, the last thing they will want to see is a pack of rats. Hence the no-rat policy.

In the locker-room after the Sharks game, Scott Mellanby reluctantly discussed the subject, a metaphorical rat hanging around his neck as surely as the Ancient Mariner wore an albatross.

"Do I regret killing it?" he mused. "No. Someone was going to do it and it might as well be me. It's given us a fun relationship with the fans and a lot of identity. I know it bothers the management having all this stuff on the ice, but the guys clean it up real quick. I don't see any problem with the image. Hell, I'd kill it again tomorrow."

Florida Panthers and the Pittsburgh Penguins battling it out last Monday – and not a rat in sight

Lottery to breathe life into city lungs

A £50m fund will help finance a revival in Britain's neglected parks, writes **Colin Amery**

Millions will not notice when snowdrops are replaced by the early flowering of almond trees this month. Too many people do not have gardens or access to a safe and cared-for park.

A recent survey by the National Heritage Memorial Fund showed that about 60 per cent do not use public parks, although Britain is thought to have the largest proportion of urban green space of any country.

However, in an inspired move, the National Heritage Lottery Fund, which distributes part of the proceeds of the National Lottery, has created a special fund of about £50m to restore and rejuvenate Britain's great legacy of public parks and urban open spaces. Included in the scope of this fund will be the historic cemeteries that also act as important green lungs in the cities.

The 19th century saw a rapid and substantial growth of city parks at a time of enormous civic pride and corresponding wealth. Sadly, the end of the 20th century has seen the rapid and depressing decline of parks because of lack of funds and the decline of local democracy.

If you were to ask the mythical man in the street whether he would like money spent on architecture, monuments or open spaces, the universal preference would be for open spaces. When the public was polled about its wishes for the redevelopment of the area near St Paul's Cathedral in the City of London, the response was a cry for more gardens and more open space.

Landscape is the one area at which the British excel, and the opportunity to improve the parks we have, or even to create some, should spark a significant revival of the arts of landscape design and gardening. There is a need for a great landscape revival: a chance for a new Arcadia away from the fumes of the motor car and the crush of the cities. The motorways have become to our generation what the railways were to John Ruskin – great bridges passing over the "sea of nature".

We do not have a Ruskin at this hour, but we do have, suddenly, huge sums of public money to spend. Lord Rothschild, chairman of the heritage lottery fund, in launching the new fund last week, said that all local authorities had been approached in the hope they would produce ideas for the parks in their care. Of course, £50m is not enough, but it is a good start.

In Glasgow, the local authority has recently reported that the parks in its care, which cover about 8,000 acres, are in need of repairs that would cost £80m. The city has one of the finest urban cemeteries in the land: its necropolis by the cathedral, which is deserted and collapsing. It is one of the most dramatic places in Scotland, with the giant tombs of the city's merchant adventurers displaying an imperial opulence worthy of Rome.

Kelvingrove Park, in its beautiful wooded valley, was influenced by the planning of that great park man, Sir Joseph Paxton, designer of the Crystal Palace for the Great Exhibition of 1851.

In turn, Liverpool's Prince's Park was one of the first triumphs of Sir Joseph, who designed it in 1842. It became the model for the Victorian public park and had influence in France and America. There are houses around the edge and a lake at the centre with a rustic island and elegant bridge. Immense trouble was taken with entrance gates on a grand scale and lodges. All the accoutrements of the great private estates were given to the city. The 400-acre Sefton Park estate in Liverpool is even more splendid, but has suffered badly from neglect.

Manchester, Bristol, Sheffield and London all have candidates for the cash but there are also smaller memorial gardens and town squares where little sums could make substantial differences. In the capital, the restoration of Greenwich Park is clearly a priority, but the survival of sub-urban parks is just as important. One obvious candidate is the cemetery at Highgate where tombs of great national importance are neglected and vandalised. In south London, the park is almost all that remains of the old Crystal Palace. The life-size dinosaurs that lurk in the undergrowth need careful restoration – they are one of the most extraordinary sites of south London, anticipating *Jurassic Park* by a century.

I can remember the terrible decline in the condition and safety of New York's Central Park. Yet in the past five years it has completely recovered, and every aspect of its original design has been carefully restored. It is crucial to the happiness of that city and its restoration became a community activity at all levels. Parks and gardens in Britain deserve the same kind of renaissance that this sudden and welcome boost of money can give. The effects on the happiness of millions will be both visible and subtle, but every tree in the cities helps our health and sanity.

THE WEEK AHEAD

DIVIDEND & INTEREST PAYMENTS

■ TODAY
Abbey National Treasury 8% Gtd Nts 1997 $80.0
Anchor Int $0.0353
Avon Rubber 12.35p
Bradford & Bingley Bldg Scty FRN Feb 1999 £177.57
British Petroleum 4p
Cons Bultfontein R0.045
Cosmos Secd FRN Y1346301.0
De Beers Cons Mines 8% Gross 2nd Cm Pf R0.04
FKI 2.2p
Griqualand West Diamond R0.21
Investment Co 0.7875p
Johnson Matthey 4.4p
Lowndes Lambert 2.9p
Orbis 0.25p
Refresh Tranche A Perp Sec FRN Y1296438.0
Do Tranche B Y1346301.0
River & Mercantile American Cap & Inc Tst 1.8p
Salvesen (Christian) 3.5p
Sanderson Elec 1.9p
Seiyu 3.8% Bd 1999 Y380000.0
South West Water 10⅝% Bd 2012 £1062.50
Do 8⅝% Nts 1998 £8375.0
Tiger Oats 5½% Gross Cm Pf R0.055
Tunstall 2.875p

■ TOMORROW
Chamberlain Phipps 2.7p
Clayhithe 0.88p
De Beers 40% Gross Cm Pf R1.0
Tate & Lyle 11p
Treasury 7% Cv 1997 £3.50
Treasury 9% 2012 £4.50
Volex 7p

■ WEDNESDAY FEBRUARY 7
Archimedes Inv Tst 19p
Bibby (J) 4p
Care UK 0.5p
Creightons Naturally 2.2p
Driefontein R0.50
Kloof R0.45
Lancashire Enterprises 2.5p
Marubeni Int Fin 6½% Dual Currency Yen/$ Bd 1997 Y650000.0
Mazda FRN Aug 1996 Y20005.0
M & G Second Dual Tst 15.6p
Pearson Stlg Fin 10¾% Gtd Bd 2002 £537.50
Perstorp Free B SKr7.0
Premier R0.04
Readicut Int 0.63p
Vaux 6.75p

■ THURSDAY FEBRUARY 8
Abbey National Treasury 7.7% Gtd Nts 1999 L385000.0
Ashbourne 2.2p
British Gas 7⅞% Bd 2044 £71.25
Five Oaks Invs 8¾% 1st Mtg Db 2019 £4.1875
Healthcare Operators Grp 1 Class B FRN 2021 £227.80
I & S Optimum Inc Tst 2.15p
Latham (James) 2.25p
Northern Foods 6¾% Cv Sb Bd 2008 £33.75
Sage 1.6p
Somic 1.25p
Storehouse 3p
Sudwestdeutsche Landesbank Cap Mkts 5% Gtd Nts 1999 DM50.0

■ FRIDAY FEBRUARY 9
American Express $0.225
Birmingham Midshires Bldg Scty FRN 1999 £172.81
Bristol Water 13.75p
Do N/Vtg 13.75p
Coats Viyella 6¼% Snr Cv bd 2003 £31.25
Collateralised Mtg (No 12) Class B Mtg Bckd FRN 2028 £221.52
Hydro-Quebec 11% Db Ser HC Feb 1999 C$110.0
Int Fin 5⅝% Nts 1996 $51.25
Man (ED & F) 3.2p
Metrotect 0.35p
Nova Scotia (Province of) FRN 1999 $154.93
Quadramatic 4.95p
Racal Elec 2.1p
Scottish Inv Tst 3.82p
Scottish & Newcastle 6.55p
Sterling Inds 2.8p
Syltone 1.8p

■ SATURDAY FEBRUARY 10
Conversion 9¾% 2001 £4.875
Morgan Stanley Equity (CI) Pf Eq Rltg Tesco 4.78125p
Treasury 6% 1999 £3.0
Wellman 0.45p

UK COMPANIES

■ TODAY
COMPANY MEETINGS:
Bibby (J), Painters Hall, 9, Little Trinity Lane, E.C., 11.30
Dewhurst, Melbourne Works, Inverness Road, Hounslow, Middx, 11.00
BOARD MEETINGS:
Finals:
Fleming Claverhouse
Waste Mngmt
Interims:
Dalgety
Elbief
Mid Wynd Inv Tst
US Smaller Co's Inv Tst
VDC

■ TOMORROW
COMPANY MEETINGS:
Allied Domecq, Hotel Inter-Continental, 1, Hamilton Place, W., 11.30
Crabtree, Kingsway, Team Valley, Gateshead, 12.00
Dwyer Estates, 100, Liverpool Street, E.C., 12.00
On Demand Information, Queens Hotel, Leeds, 10.00
BOARD MEETINGS:
Finals:
French Property Tst
Gardiner Grp
Yeoman Inv Tst
Interims:
British Sky Broadcasting
Howard Hldgs

■ WEDNESDAY FEBRUARY 7
COMPANY MEETINGS:
Chemring, 1480, Parkway, Whiteley, Fareham, Hants, 2.30
River & Mercantile Smaller Co's Tst, 7, Lincolns Inn Fields, W.C., 12.00
Sage, Sage House, Benton park Road, Newcastle upon Tyne, 11.00
Utility Cable, 100, Wood Street, E.C., 10.00
BOARD MEETINGS:
Finals:
Amicable Smaller Enterprises Tst
Continental Assets
Murray Euro Inv Tst
Interims:
Angerstein Underwriting
Betacom
Continental Foods
Excalibur Grp

■ THURSDAY FEBRUARY 8
COMPANY MEETINGS:
API, Waldorf Hotel, Aldwych, W.C., 12.30
Allders, Highcliff Hotel, St. Michaels Road, Bournemouth, 11.00
Bass, Queen Elizabeth II Conference Centre, Broad Sanctuary, S.W., 12.00
Electronic Data Processing, Tapton Masonic Hall, Shore Lane, Sheffield, 12.00
Stakis, Glasgow Airport Hotel, Inchinnan Road, Renfrew, 12.00
BOARD MEETINGS:
Finals:
Edinburgh Java Tst
Gartmore Emerging Pacific Inv Tst
P & P
Interims:
Amstrad
Westminster Health Care
Wyefield

■ FRIDAY FEBRUARY 9
COMPANY MEETING:
Archer, Lloyds of London, 1, Lime Street, E.C., 10.30
BOARD MEETINGS:
Finals:
Heavitree Brewery
Nightfreight
Interims:
Compel
Jersey Phoenix Tst

Company meetings are annual general meetings unless otherwise stated.

Please note: Reports and accounts are not normally available until approximately six weeks after the board meeting to approve the preliminary results.

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Feb 2 / Sch)

BELGIUM/LUXEMBOURG (Feb 2 / Frs.)

CZECH REP (Feb 2 / Koruna)

DENMARK (Feb 2 / Kr)

FINLAND (Feb 2 / Mka)

FRANCE (Feb 2 / Frs.)

GERMANY (Feb 2 / Dm.)

GREECE (Feb 2 / Drachma)

ITALY (Feb 2 / Lire)

NETHERLANDS (Feb 2 / Fls.)

NORWAY (Feb 2 / Kroner)

POLAND (Feb 2 / Zloty)

PORTUGAL (Feb 2 / Escudo)

SPAIN (Feb 2 / Pta.)

SWEDEN (Feb 2 / Kronor)

SWITZERLAND (Feb 2 / Frs.)

TURKEY (Feb 2 / Tk. Lira)

PACIFIC

JAPAN (Feb 2 / Yen)

AUSTRALIA (Feb 2 / Aus$)

HONG KONG (Feb 2 / H.K.$)

INDONESIA (Feb 2 / Rupiah)

MALAYSIA (Feb 2 / MYR)

NEW ZEALAND (Feb 2 / NZ $)

SINGAPORE (Feb 2 / S$)

SOUTH KOREA (Feb 2 / Won)

TAIWAN (Feb 2 / TW $)

THAILAND (Feb 2 / Baht)

AFRICA

SOUTH AFRICA (Feb 2 / Rand)

NORTH AMERICA

CANADA

TORONTO (Feb 2 / Can $)

4 pm close

MONTREAL (Feb 2 / Can $)

4 pm close

INDICES

	Feb 2	Feb 1	Jan 31	1995/96 High		1995/96 Low	
Argentina							
General(29/12/77)	17927.21	18032.20	18191.58	18191.58	31/1/96	9831.89	9/3/95
Australia							
All Ordinaries(1/1/80)	2293.2	2285.1	2288.5	2293.20	2/2/96	1823.30	8/2/95
All Mining(1/1/80)	1058.5	1028.8	1020.8	1058.90	2/2/96	795.30	8/2/95
Austria							
Credit Aktien(30/12/84)	385.49	384.77	385.95	385.42	2/1/95	328.50	27/10/95
Traded Index(2/1/91)	1084.51	1082.37	1086.57	1086.57	31/1/96	882.15	23/10/95
Belgium							
BEL20(1/1/91)	1704.53	1715.74	1690.23	1715.74	1/2/96	1271.53	9/3/95
Brazil							
Bovespa(29/12/83)	54109.0	53694.0	51515.0	54109.00	2/2/96	21382.80	9/3/95
Canada							
Metals Mints♦(1975)	5251.35	5221.86	5172.96	5288.37	23/11/95	3808.63	1/3/95
Composite♦(1975)	5032.0	5011.10	4968.40	5032.80	2/2/96	3991.41	30/1/95
Portfolio§§(4/1/83)	2472.55	2470.61	2451.58	2472.55	2/2/96	1853.36	30/1/95
Chile							
IGPA Gen♥(31/12/80)	5752.22	5730.12	5658.21	6363.18	11/7/95	4576.80	9/3/95
Denmark							
CopenhagenSE(3/1/83)	388.06	389.12†	388.55	389.29	25/1/96	330.91	29/3/95
Finland							
HEX General(28/12/90)	1812.94	1781.62	1752.41	2332.22	14/9/95	1588.30	29/3/95
France							
SBF 250(31/12/90)	1337.73	1336.17	1336.56	1338.17	1/2/96	1154.41	13/3/95
CAC 40(31/12/87)	2022.21	2024.09	2021.03	2024.09	1/2/96	1721.14	23/10/95
Germany							
FAZ Aktien(31/12/58)	876.95	882.59	882.18	882.59	1/2/96	708.87	30/3/95
Commerzbank(1/12/53)	2547.40	2559.50	2569.90	2569.90	31/1/96	2018.76	30/3/95
DAX‡(30/12/87)	2452.08	2459.26	2470.14	2470.14	31/1/96	1910.96	28/3/95
Greece							
Athens SE(31/12/80)	980.63	994.40	989.45	998.30	22/1/96	787.16	16/3/95
Hong Kong							
Hang Seng(31/7/64)	11469.40	11362.80	11359.70	11469.40	2/2/96	6967.93	23/1/95
India							
BSE Sens.(1979)	3172.83	3001.42	2931.84	3932.09	2/1/95	2828.08	25/1/96
Indonesia							
Jakarta Comp.(10/8/82)	587.57	581.06	578.56	587.57	2/2/96	414.21	19/4/95
Ireland							
ISEQ Overall(4/1/88)	2333.29	2333.63	2334.07	2334.07	31/1/96	1613.59	23/1/95
Italy							
Banca Comm Ital(1972)	631.33	630.55	619.94	680.84	10/2/95	547.79	5/12/95
MIB General(2/1/95)	1070.0	1069.0	1051.0	1070.00	2/2/96	982.00	15/1/96
Japan							
Nikkei 225(16/5/49)	20904.03	20935.12	20812.74	20935.12	1/2/96	14485.40	3/7/95
Nikkei 300(1/10/82)	301.53	303.66	301.79	307.98	5/1/96	222.28	13/6/95
Topix(4/1/68)	1617.51	1624.52	1613.11	1692.03	5/1/96	1193.16	13/6/95
2nd Section(4/1/68)	2119.19	2108.93	2101.76	2130.68	4/1/95	1441.90	13/6/95
Malaysia							
KLSE Comp.(4/4/86)	1073.18	(c)	1055.42	1085.04	5/6/95	849.87	24/1/95
Mexico							
IPC(Nov 1978)	(u)	3076.21	3034.65	3087.98	29/1/96	1447.52	27/2/95
Netherland							
CBS TtlRtnGen(End 83)	558.2	556.8	555.7	558.20	2/2/96	422.90	23/3/95
CBS All Shr(End 83)	338.0	337.2	336.5	338.00	2/2/96	265.20	23/3/95
New Zealand							
Cap. 40(1/7/86)	2102.50	2111.47	2114.65	2206.02	20/10/95	1901.43	5/1/95
Norway							
Oslo SE(Ind)(2/1/83)	1280.44	1277.30	1270.45	1315.20	8/1/96	1036.00	10/3/95
Philippines							
Manila Comp(2/1/85)	2927.26	2900.83	2885.76	2958.12	10/7/95	2196.48	20/11/95
Portugal							
BTA(1977)	2658.5	2643.6	2638.7	2911.80	9/1/95	2412.90	22/11/95
Singapore							
SES All-S'pore(2/4/75)	603.56	600.98	597.97	603.56	2/2/96	472.90	23/1/95
South Africa							
JSE Gold(28/9/78)	1902.4♥	1748.3	1698.1	2023.00	2/1/95	1250.20	30/10/95
JSE Ind.(28/9/78)	8606.6♥	8619.4	8599.0	8739.30	25/1/96	6222.00	31/1/95
South Korea							
KoreaCmpEx**(4/1/80)	861.52	865.13	878.82	1027.37	2/1/95	842.72	20/1/96
Spain							
Madrid SE(30/12/85)	330.57	331.88	330.34	331.88	1/2/96	284.08	23/3/95
Sweden							
AffarsvardsGen(1/2/37)	1795.6	1779.4	1765.7	1872.10	19/9/95	1439.80	29/3/95
Switzerland							
Swiss Bk Ind(31/12/58)	1555.30	1554.36	1537.58	1578.69	4/1/96	1174.63	13/3/95
SBC General(1/4/87)	1141.40	1143.33	1131.20	1185.59	4/1/96	870.58	13/3/95
Taiwan							
WeightedPr.**(30/6/66)	4791.32	4775.28	4763.40	7051.49	5/1/95	4503.37	14/8/95
Thailand							
Bangkok SET(30/4/75)	1412.61	1398.60	1410.33	1472.84	10/7/95	1136.69	16/3/95
Turkey							
Istanbul Corp.(Jan 1986)	50911.9	51437.3	49489.5	54853.80	21/4/95	24844.30	23/1/95
WORLD							
MS Capital Int.$(1/1/70)	750.0*	748.5	746.5	750.00	2/2/96	596.21	23/1/95
CROSS-BORDER							
Eurotrack 100(26/10/90)	1568.84	1570.74	1558.54	1578.74	1/2/96	1222.41	13/3/95
Euro Top-100(26/6/90)	1410.12	1407.25	1405.37	1418.12	2/2/96	1117.34	9/3/95
JCapelDrgns(31/12/88)	(u)	374.53	373.56	374.83	1/2/96	262.07	23/1/95
ING Bngs Emrg(7/1/92)	161.78	159.29	158.80	161.78	2/2/96	117.15	10/3/95

INDEX FUTURES

	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
CAC-40 (200 x index)							
Feb	2022.0	2032.0	-1.0	2032.0	2015.0	11,891	34,405
Mar	2026.5	2040.0	-0.5	2037.0	2022.0	1,524	24,799
DAX							
Mar	2480.0	2469.0	-13.0	2480.0	2458.5	21,455	-
Jun	2493.3	2481.0	-11.0	2483.0	2474.0	834	-
OMX							
Feb	1400.00	1402.50	+11.00	1406.00	1395.00	7,159	13,931
Mar	1403.75	1412.00	+16.50	1412.00	1403.75	450	650
SOFFEX							
Jan	3275.0	3272.0	-11.0	3280.0	3261.0	5,920	15,682
Feb	3283.0	3277.7	+1.6	3282.0	3276.6	45	1,202

** Sat Jan 27: Taiwan Weighted Price 4681.53; Korea Comp Ex 894.77. Base values of all indices are 100 except: Australia All Ordinary and Mining - 500; Austria Traded, BEL20, HEX Gen., MIB Gen., SBF250, CAC40, Euro Top-100, ISEQ Overall; Toronto Comp./Metals & Minerals and DAX - all 1,000; JSE Gold - 255.7; JSE 20 Industrials - 264.3; NYSE All Common - 50 and Standard and Poor's - 10. §§ Montreal. ♦ Toronto (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours index: Feb 2 - 2458.81 -12.72.

US INDICES

Dow Jones	Feb 2	Feb 1	Jan 31	1995/96 High	1995/96 Low	Since compilation High	Since compilation Low
Industrials	5373.99	5405.06	5395.30	5405.06 (1/2/96)	3832.08 (30/1/95)	5405.06 (1/2/96)	41.22 (2/7/32)
Home Bonds	105.91	105.80	105.75	105.91 (2/2/96)	93.63 (3/1/95)	109.77 (18/10/93)	54.99 (1/10/81)
Transport	1980.22	1943.85	1946.74	2082.11 (5/12/95)	1473.19 (3/1/95)	2082.11 (5/12/95)	12.32 (8/7/32)
Utilities	228.90	230.29	230.85	230.85 (31/1/96)	183.03 (3/1/95)	256.46 (31/8/93)	10.50 (8/4/32)

DJ Ind. Day's high 5442.99 (5438.29) Low 5338.94 (5335.69) (Theoretical♦)
Day's high 5410.84 (5405.06) Low 5357.37 (5370.37) (Actual♦)

Standard and Poors	Feb 2	Feb 1	Jan 31	1995/96 High	1995/96 Low	Since compilation High	Since compilation Low
Composite‡	635.85	638.46	636.02	638.46 (1/2/96)	459.11 (3/1/95)	638.46 (1/2/96)	4.40 (1/6/32)
Industrials♥	746.95	750.22	745.02	750.22 (1/2/96)	545.28 (3/1/95)	750.22 (1/2/96)	3.62 ([illegible])
Financial	64.09	64.47	65.07	65.07 (31/1/96)	41.64 (3/1/95)	66.97 (31/1/96)	8.64 (1/10/74)
NYSE Comp.	340.09	341.23	340.03	341.23 (1/2/96)	250.73 (3/1/95)	341.23 (1/2/96)	4.46 (25/4/42)
Amex Mkt Val	555.54	555.68	554.10	555.68 (1/2/96)	433.12 (6/1/95)	555.68 (1/2/96)	29.31 (9/12/72)
NASDAQ Cmp	1072.11	1069.45	1059.79	1072.11 (2/2/96)	743.58 (3/1/95)	1072.11 (2/2/96)	54.87 (31/10/72)

■ RATIOS

	Jan 26	Jan 19	Jan 12	Year ago
Dow Jones Ind. Div. Yield	2.24	2.28	2.33	2.79
	Jan 31	Jan 24	Jan 17	Year ago
S & P Ind. Div. yield	1.91	1.95	2.01	2.42
S & P Ind. P/E ratio	19.43	18.96	18.42	16.96

■ NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Close price	Change on day
Kmart	9,903,300	7¼	+⅛
WalMart	5,431,300	21½	−⅛
Hanson	5,352,200	15¼	+⅛
Baxter Intl	4,478,800	42⅝	−2⅝
Ford Motor	4,369,800	29¾	−⅜
AT&T	4,132,400	64¾	−1⅜
Hollinger	3,693,300	9¼	−¼
Barrick Gld	3,706,700	31⅛	+¾
Fed Natl	3,582,300	32⅝	−1⅛
Grace Co	3,321,600	69½	+7⅞

■ TRADING ACTIVITY

● Volume (million)

	Feb 2	Feb 1	Jan 31
New York SE	418.487	458.736	472.058
Amex	34.662	38.679	26.405
NASDAQ	(u)	594.923	574.269
NYSE			
Issues Traded	3,084	3,097	3,108
Rises	1,040	1,389	1,568
Falls	1,270	986	807
Unchanged	774	722	733
New Highs	204	263	303
New Lows	20	11	20

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
■ S&P 500							
Mar	639.50	638.35	-1.30	641.30	635.70	68,596	189,075
Jun	645.00	643.90	-1.35	646.65	641.25	2,148	8,880
■ Nikkei 225							
Mar	20950.0	21020.0	+30.0	21140.0	20910.0	20,400	155,261
Jun	20980.0	20950.0	-50.0	21110.0	20910.0	929	21,338

Open interest figures for previous day.

† Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♦ The DJ Ind. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

■ TOKYO - MOST ACTIVE STOCKS: Friday, February 2, 1996

	Stocks Traded	Closing Prices	Change on day
Kyokuyo	16.8m	1020	+100
Japan Energy	14.9m	370	+18
Japan Steel Wk	14.3m	369	+4
Central Glass	13.4m	535	+22
Ishihara Sangyo	10.9m	410	+14
Nippon Steel Corp	10.6m	372	[illegible]
Koa Oil Co	10.5m	1660	[illegible]
Mitsui Eng & Bld	10.0m	1000	[illegible]
NKK Corp	9.2m	309	...
Ishihara Hvy Ind	8.4m	486	+25

Prices supplied by Telekurs

NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. Highs and lows are for 1995/96 (Montreal ...) dividend ... † Priced in ...

FT FREE ANNUAL REPORTS SERVICE

You can obtain the current annual/interim report of any company annotated with ♣. Please ... FT2405. ... the UK ... Reports will be sent on the next working day, subject to availability.

هكذا من الأصل

CURRENCIES AND MONEY

POUND SPOT FORWARD AGAINST THE POUND

Feb 2		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	15.8840	-0.0043	765 - 914	15.9197	15.8877	15.8405	3.3	15.7965	2.2	-	-	106.0
Belgium	(BFr)	46.4313	-0.0058	902 - 723	46.6870	46.3900	46.3263	2.7	46.1213	2.7	45.2813	2.5	108.2
Denmark	(DKr)	8.7357	-0.0017	314 - 400	8.7565	8.7277	8.7224	1.8	8.6982	1.7	8.6005	1.5	109.2
Finland	(FM)	6.9257	+0.0205	187 - 326	6.9600	6.9110	6.9213	0.8	6.9132	0.7	-	-	85.3
France	(FFr)	7.7595	+0.0085	573 - 616	7.7806	7.7514	7.748	1.8	7.7261	1.7	7.6408	1.5	109.2
Germany	(DM)	2.2589	-0.0006	579 - 598	2.2657	2.2552	2.2538	2.7	2.2428	2.9	2.1982	2.7	110.4
Greece	(Dr)	372.407	+0.487	245 - 569	374.973	371.711	-	-	-	-	-	-	65.8
Ireland	(I£)	0.9687	+0.0023	678 - 695	0.9703	0.9666	0.9678	1.1	0.9665	0.9	0.9627	0.6	98.0
Italy	(L)	2399.51	+9.69	858 - 044	2408.38	2392.64	2405.66	-3.6	2421.41	-3.7	2480.58	-3.4	73.8
Luxembourg	(LFr)	46.4313	-0.0058	902 - 723	46.6870	46.3890	46.3263	2.7	46.1213	2.7	45.2813	2.5	108.2
Netherlands	(Fl)	2.5295	+0.0002	283 - 307	2.5430	2.5276	2.5232	3.0	2.5106	3.0	2.4588	2.8	108.3
Norway	(NKr)	9.8590	-0.0012	510 - 669	9.8853	9.8190	9.8489	1.2	9.8274	1.3	9.7482	1.1	98.8
Portugal	(Es)	233.911	-0.241	743 - 078	234.589	233.730	234.338	-2.2	235.241	-2.3	-	-	95.4
Spain	(Pta)	190.115	-0.067	980 - 249	190.713	189.947	190.525	-2.6	191.36	-2.8	194.556	-2.3	82.0
Sweden	(SKr)	10.5586	+0.0223	498 - 674	10.6116	10.5056	10.5606	-0.2	10.584	-0.2	10.5771	-0.2	85.4
Switzerland	(SFr)	1.8513	+0.0089	503 - 522	1.8575	1.8448	1.8446	4.3	1.8315	4.3	1.7796	3.9	112.9
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	83.7
Ecu	-	1.2289	+0.0016	284 - 294	1.2321	1.2277	1.2275	1.4	1.2247	1.4	1.2131	1.3	-
SDR†	-	1.04180	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.5182	+0.0053	177 - 186	1.5204	1.5167	-	-	-	-	-	-	-
Brazil	(R$)	1.4857	+0.0056	851 - 862	1.4877	1.4841	-	-	-	-	-	-	-
Canada	(C$)	2.0869	+0.0067	860 - 877	2.0892	2.0839	2.0856	0.7	2.0832	0.7	2.0753	0.6	83.7
Mexico	(New Peso)	11.2471	+0.035	293 - 649	11.2662	11.2250	-	-	-	-	-	-	-
USA	($)	1.5189	+0.0056	185 - 192	1.5212	1.5172	1.5178	0.9	1.5156	0.9	1.5045	0.9	96.4
Pacific/Middle East/Africa													
Australia	(A$)	2.0122	-0.0117	110 - 133	2.0313	2.0091	2.014	-1.1	2.0179	-1.1	2.0388	-1.3	88.7
Hong Kong	(HK$)	11.7438	+0.0452	403 - 472	11.7615	11.7317	11.7379	0.6	11.7286	0.5	11.6941	0.4	-
India	(Rs)	55.8178	+0.461	290 - 066	55.9120	55.5190	-	-	-	-	-	-	-
Israel	(Shk)	4.7671	+0.0213	623 - 718	4.7810	4.7580	-	-	-	-	-	-	-
Japan	(Y)	162.031	-0.045	918 - 144	162.880	161.610	161.286	5.5	159.716	5.7	153.741	5.1	136.8
Malaysia	(M$)	3.8769	+0.0079	752 - 785	3.8844	3.8734	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.2447	+0.0042	430 - 463	2.2535	2.2400	2.2481	-1.8	2.2565	-2.1	2.2891	-2.0	108.7
Philippines	(Peso)	39.7314	+0.140	164 - 833	39.7900	39.7150	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.6966	+0.0216	950 - 981	5.7051	5.6906	-	-	-	-	-	-	-
Singapore	(S$)	2.1538	+0.0056	525 - 550	2.1565	2.1521	-	-	-	-	-	-	-
South Africa	(R)	5.5450	+0.0203	425 - 474	5.5531	5.5401	-	-	-	-	-	-	-
South Korea	(Won)	1188.83	-0.58	840 - 725	1192.74	1185.69	-	-	-	-	-	-	-
Taiwan	(T$)	41.7259	+0.1406	132 - 385	41.7874	41.6838	-	-	-	-	-	-	-
Thailand	(Bt)	38.4801	+0.1306	560 - 041	38.5450	38.4490	-	-	-	-	-	-	-

† Rates for Feb 1 Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Feb 2		Closing mid-point	Change on day	Bid/offer spread
Saudi Arabia	(SR)	3.7506	+0.0001	504 - [illegible]
Singapore	(S$)	1.4180	-0.0017	175 - [illegible]
South Africa	(R)	3.6506	-0.0005	500 - [illegible]
South Korea	(Won)	781.400	-3.35	300 - [illegible]
Taiwan	(T$)	27.4720	-0.0115	700 - [illegible]
Thailand	(Bt)	25.3350	-0.01	250 - [illegible]

† SDR rate per $ for Feb 1. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Feb 1: Base average 1990=100

WORLD INTEREST RATES

MONEY RATES

February 2	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	3 3/8	3 1/4	3 1/4	3 1/4	3 1/4	7.00	3.00	-
week ago	3 1/2	3 1/4	3 3/8	3 3/8	3 1/4	7.00	3.00	-
France	4 1/4	4 3/8	4 1/4	4 3/8	4 3/8	4.05	-	5.60
week ago	4 1/2	4 3/8	4 1/4	4 1/4	4 1/4	4.20	-	5.60
Germany	3 3/8	3 1/4	3 1/4	3 3/8	3 3/8	5.00	3.00	3.30
week ago	3 1/2	3 1/2	3 3/8	3 3/8	3 3/8	5.00	3.00	3.55
Ireland	4 7/8	4 7/8	5 3/8	5 1/4	5 1/4	-	-	6.25
week ago	5 1/4	4 7/8	5 3/8	5 3/8	5 3/8	-	-	6.25
Italy	9 7/8	9 5/8	9 3/8	9 3/8	9 3/8	-	9.00	9.88
week ago	10	9 3/4	9 5/8	9 5/8	9 5/8	-	9.00	9.98
Netherlands	3 3/8	3	2 7/8	2 7/8	3	-	3.00	3.30
week ago	3 1/4	3	3 1/8	3 1/8	3 1/8	-	3.00	3.30
Switzerland	1 1/2	1 1/4	1 1/4	1 3/8	1 3/8	5.00	1.50	-
week ago	1 1/4	1 1/4	1 1/4	1 1/4	1 1/4	5.00	1.50	-
US	5 1/4	5 1/4	5 1/8	5 1/8	5	-	5.00	-
week ago	5 3/8	5 1/4	5 1/4	5 1/4	5 1/8	-	5.25	-
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	0.50	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	0.50	-
$ LIBOR FT London								
Interbank Fixing	-	5 3/8	5 1/4	5 1/8	5 1/8	-	-	-
week ago	-	5 3/8	5 1/2	5 1/4	5 1/8	-	-	-
US Dollar CDs	-	5.23	5.19	5.12	4.89	-	-	-
week ago	-	5.23	5.19	5.12	4.89	-	-	-
ECU Linked Ds	-	4 7/8	4 3/4	4 1/2	4 3/8	-	-	-
week ago	-	4 7/8	4 3/4	4 1/2	4 3/8	-	-	-
SDR Linked Ds	-	3 3/4	3 3/4	3 3/4	3 3/4	-	-	-
week ago	-	3 3/4	3 3/4	3 3/4	3 3/4	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Feb 2		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.82	16.71	4.865	2.087	5167	5.449	21.23	503.8	409.4	22.74	3.987	2.154	4.495	3.272	348.9	2.647
Denmark	(DKr)	53.15	10	8.883	2.586	1.109	2748	2.896	11.29	267.7	217.6	12.09	2.119	1.145	2.389	1.739	185.4	1.407
France	(FFr)	59.83	11.26	10	2.911	1.249	3091	3.260	12.70	301.4	245.0	13.61	2.385	1.289	2.689	1.957	208.8	1.584
Germany	(DM)	20.55	3.867	3.435	1	0.429	1062	1.120	4.364	103.5	84.15	4.675	0.819	0.443	0.924	0.672	71.71	0.544
Ireland	(I£)	47.92	9.015	8.008	2.331	1	2476	2.611	10.17	241.4	196.2	10.90	1.910	1.032	2.154	1.568	167.2	1.268
Italy	(L)	1.935	0.364	0.323	0.094	0.040	100.	0.105	0.411	9.750	7.924	0.440	0.077	0.042	0.087	0.063	6.753	0.051
Netherlands	(Fl)	18.35	3.453	3.067	0.893	0.383	948.2	1	3.897	92.45	75.14	4.174	0.732	0.395	0.825	0.600	64.03	0.486
Norway	(NKr)	47.09	8.861	7.871	2.291	0.983	2433	2.566	10	237.2	192.8	10.71	1.877	1.014	2.117	1.541	164.3	1.247
Portugal	(Es)	19.85	3.735	3.318	0.966	0.414	1026	1.082	4.215	100.	81.27	4.515	0.791	0.428	0.892	0.649	69.26	0.525
Spain	(Pta)	24.42	4.595	4.082	1.188	0.510	1262	1.331	5.186	123.0	100.	5.555	0.974	0.526	1.098	0.799	85.22	0.647
Sweden	(SKr)	43.97	8.273	7.348	2.139	0.918	2272	2.396	9.336	221.5	180.0	10	1.753	0.947	1.976	1.438	153.4	1.164
Switzerland	(SFr)	25.08	4.720	4.192	1.220	0.524	1296	1.367	5.326	126.4	102.7	5.705	1	0.540	1.127	0.821	87.52	0.664
UK	(£)	46.43	8.736	7.760	2.259	0.969	2399	2.530	9.859	233.9	190.1	10.58	1.851	1	2.087	1.519	162.0	1.229
Canada	(C$)	22.25	4.186	3.718	1.082	0.464	1149	1.212	4.724	112.1	91.09	5.070	0.887	0.479	1	0.728	77.62	0.589
US	($)	30.57	5.751	5.109	1.487	0.638	1579	1.666	6.490	154.0	125.1	6.952	1.218	0.658	1.374	1	106.6	0.809
Japan	(Y)	28.66	5.393	4.790	1.394	0.598	1481	1.562	6.086	144.4	117.3	6.519	1.143	0.617	1.288	0.938	100.	0.759
Ecu		37.78	7.108	6.314	1.838	0.788	1952	2.059	8.022	190.3	154.7	8.592	1.506	0.814	1.698	1.236	131.8	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10: Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Sett price	Change	High	Low	Est.vol	Open int.
Mar	0.6748	0.6767	+0.0028	0.6770	0.6717	34,420	68,589
Jun	0.6770	0.6799	+0.0027	0.6796	0.6755	116	3,641
Sep	0.6795	0.6828	+0.0026	0.6803	0.6795	15	1,386

SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

STERLING FUTURES (IMM) £62,500 per £

PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Pound in New York

Feb 2	---Close---	-- Prev. close --
£ spot	1.5255	1.5200
1 mth	1.5244	1.5189
3 mth	1.5221	1.5167

FT GUIDE to WORLD CURRENCIES

The FT Guide to World Currencies table can be found on the Companies & Finance page in today's edition.

UK INTEREST RATES

LONDON MONEY RATES

BANK OF ENGLAND TREASURY BILL TENDER

BASE LENDING RATES

BANK RETURN

UK GILTS PRICES

Other Fixed Interest

STOCK INDICES

FT GOLD MINES INDEX

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LONDON RECENT ISSUES: EQUITIES

† Alternative Investment Market. For a full explanation of all other symbols please refer to The London Share Service notes.

RIGHTS OFFERS

Issue price p	Amount paid up	Latest Renun. date	1995/96 High	Low	Stock	Closing price p	+or-
435	Nil	13/2	91pm	48pm	Berkeley Group	91pm	+5
28	Nil	27/2	1 1/4pm	1/2pm	Eleco Hldgs	1/2pm	
235	Nil	13/3	109pm	55pm	Oxford Molecular	109pm	+5
14	Nil	28/2	3/4pm	3/4pm	†Western Selection	3/4pm	

pm premium.

Notice of Redemption

First Union Corporation

U.S. $150,000,000

Floating Rate Notes due 1996

Redemption Date: 29th February, 1996

FIRST UNION CORPORATION (the "Company") has called for redemption, and will redeem on 29th February, 1996 (the "Redemption Date"), all of its outstanding Floating Rate Notes due 1996 (the "Notes") at a redemption price per Note equal to 100% of the principal amount thereof (the "Redemption Price"), as provided in the Indenture, dated as of 1st November, 1986, between the Company and Bankers Trust Company, as trustee. Payment of interest due on 29th February, 1996 will be made in the usual manner.

On the Redemption Date, the Redemption Price will become due and payable on all Notes and Interest thereon shall cease to accrue on and after such date. As of and following the Redemption Date, the only remaining right of the Holder of any Note shall be the right to receive payment of the Redemption Price upon surrender of such Note with all unmatured coupons appertaining thereto at one of the places of payment specified below.

In order to receive payment of the Redemption Price, Holders of Notes must surrender their Note Certificates, together with all unmatured coupons appertaining thereto, at one of the places of payment specified below.

Bankers Trust Company
1 Appold Street
Broadgate
London EC2A 2HE
England

Swiss Bank Corporation
Securities Management Coupons
Paradeplatz 6
CH-8010 Zurich
Switzerland

Banque du Benelux, S.A.
Rue des Colonies 40
B-1000 Brussels
Belgium

Banque Internationale à Luxembourg
2 Boulevard Royal
Luxembourg City
Luxembourg

For Notes in registered form only:

Bankers Trust Company
Corporate Trust and Agency Group
123 Washington Street- 1st Floor Window
Attn: Bond Redemption Unit
New York, NY 10008

29th January, 1996 FIRST UNION CORPORATION

GT BIOTECHNOLOGY & HEALTH FUND
(in liquidation)

société anonyme d'investissement à capital fixe
Registered office: 2, boulevard Royal, Luxembourg
R.C. Luxembourg B 24 840

Notice of Extraordinary General Meeting

The shareholders of GT BIOTECHNOLOGY & HEALTH FUND (in liquidation) (the "Fund") are hereby convened to an Extraordinary General Meeting to be held at 69, route d'Esch, Luxembourg on 14 February, 1996 at 11.00 a.m. with the following agenda:

1. To receive the report of the auditor to the liquidation.
2. To grant discharge to the liquidator and the auditor to the liquidation.
3. To grant discharge to the directors in office until the date of liquidation.
4. To decide the close of the liquidation of the Fund.
5. To decide to keep the records and books of the Fund for a period of 5 years at the offices of Banque Internationale à Luxembourg.
6. To note that liquidation proceeds which have not been distributed will be transferred to the Caisse des Consignations to be held for the benefit of the persons entitled thereto.

Resolutions will be passed with the consent of a simple majority of the shares represented at the meeting.

Proxy cards are available at the registered office of the Fund.

Bearer shareholders are requested to deposit their shares at Banque Internationale à Luxembourg at least 3 clear days prior to the date of the meeting.

Luxembourg, 27 January, 1996
GT BIOTECHNOLOGY & HEALTH FUND (in liquidation)

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
Allied Domecq		512xd	-2.8	029.5	1.2	Feb Jul	4.12	1590
Bulmer (HP)		547½xd	4.5	12.3	2.6	Feb Sep	8.1	2066
Burn St Dist		123	-.8	3.0	0.9	May Nov	30.10	1518
Grand Met		434½xd	-3.0	14.9	1.9	Apr Oct	29.12	2759
Guinness		462	-1.1	14.1	2.3	Nov May	9.10	2791
Highland		330	2.8	7.8	2.7	Jan Jun	4.12	2896
King Y		787½	2.3	020%	4.2	Mar Sep	-	1119
Macallan-Glen		186	-1.2	1.32	3.4	Nov May	2.10	3254
Macdon Martin A		630	-.8	10.9	3.3	Jan Jul	11.12	3257
Matthew Clark		856xd	-.5	22.0	0.2	Apr Oct	29.1	2753
Merrydown		102	-4.7	2.0	-	Jan Oct	11.12	3392
Seagram S		£23⅜		060e	-	[illegible]	3'93	-

BANKS, MERCHANT

	Notes	Price	Wk% ch'nge	Div net	Div cov	Dividends paid	Last xd	City line
Barings 8pc Cm 2nd Prf		50¹⁄₁₈		8%	-	Jan Dec	11'94	1757
Cater Allen		490	1.3	30.0	2.0	Jan Aug	11.12	2081
Close Bros		398	8.9	8.7	2.5	Apr Nov	9.10	2108
Gerrard & Nat		458	-2.6	22.5	1.3	Jul Dec	13.11	2586
Hambros		202	2.0	7.5	-	Aug Dec	27.11	2812
7½pc Cv Pf		103	1.0	7½%	-	Oct Apr	4.9	4388
Joseph (L)		453		16.75	1.6	Sep Jan	11.12	3060
King & Shaxson		154	5.5	9.0	1.4	Jan Jul	22.12	3068
Rea Brothers		58	-9.2	1.8	2.4	May Sep	14.8	3782
Schroders		1270	-1.9	14.17	5.1	May Oct	18.9	3939
N/V		1018	-1.0	14.17	5.1	May Oct	18.9	3941
Singer & Fried		105	1.4	3.7	2.7	Nov Jun	25.9	4028
8½pc Cv Ln 09/14		£132¾	0.4	08½%	-	-	19.10	4048

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

BUILDING MATS. & MERCHANTS - Cont.

CHEMICALS

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ELECTRONIC & ELECTRICAL EQPT - Cont.

ENGINEERING

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Cont.

FOOD PRODUCERS

GAS DISTRIBUTION

HEALTH CARE

HOUSEHOLD GOODS

HOUSEHOLD GOODS - Cont.

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

INV TRUSTS SPLIT CAPITAL

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LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LEISURE & HOTELS - Cont.

LIFE ASSURANCE

MEDIA

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

OTHER FINANCIAL - Cont.

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

	Notes	Price	W'k% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
Astra B SKr	□	£26¾	2.2	Q80%	4.9	May	5'93	–
Blots	♣	137	-6.2	–	–	–	–	–
Brit Biotech	♣♣v□	1875	-16.0	–	–	–	–	2819
Cantab Pharms.	♣♣v	470	-11.0	–	–	–	–	3448
Celltech	♣v□	475	-27.7	–	–	–	–	3709
Chiroscience	♣♣v□	274	-12.2	–	–	–	–	3885
Cortecs	♣v□	234	-17.0	–	–	–	–	4505
Elan E	y	£37¼	2.8	–	–	–	–	–
Glaxo Wellcome	♣♣Zv□	968	7.0	30.0	1.6	Apr Oct	18.9	2781
Hafslund A NKr	□	£18½	0.6	Q89%	2.1	May	5'93	4785
B NKr	□	£18⅞	-3	Q89%	2.1	May	5'93	4786

PHARMACEUTICALS - Cont.

	Notes	Price	W'k% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
Huntingdon	♣v□	87	-2.9	–	–	Jul	6'94	2945
Lilly (Eli) $		£39⅛	9.7	[illegible]	–	MrJnSeDe	14.11	–
Medeva	♣♣†v□	234	4.9	3.8	4.3	May Oct	31.7	3029
Meconic	Z□	197xd	-1.5	1.85	–	Feb	15.1	5153
Novo B DKr		£96¾	-4.6	Q28%	9.6	May	26.4	3020
Oxford Molecular	♣♣v	344xr	20.8	–	–	–	–	3669
Peptide Therapeutics	□	208	-4.1	–	–	–	–	–
Proteus Intl	♣v□	71	-22.8	–	–	–	–	2351
Ransom (Wm)	♣v	87	-1.7	2.09	2.1	Apr Oct	21.8	3778
Schering DM	□	£47⅞	2.1	Q31%	–	May	6'93	–
Scotia	♣♣	669	0.5	–	–	–	–	2785
SmKl Beecham A	♣♣†v□	737	2.0	13.6	2.6	JaApJyOc	20.11	4835
Equity Units	†□	726	1.4	Q28.4c	2.8	JaApJyOc	20.11	4840

PROPERTY

PROPERTY - Cont.

RETAILERS, FOOD

RETAILERS, GENERAL

RETAILERS, GENERAL - Cont.

	Notes	Price	W'k% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
Courts	♣†v	750	—	Q8.25	4.8	Apr Oct	11.9	2256
DFS Furniture	♣♣v□	412	2.2	8.3	0.9	Jan Nov	30.10	3598
Dixons	♣†v□	429xd	0.7	7.5	2.5	Mar Oct	22.1	2355
(Net) Dv Cv Pf		121½	1.7	6.0	–	Jan Jul	18.12	2356
Era	♣v□	7½	—	–	–	–	11'89	2491
Essex Furn	♣♣v	103	3.0	4.3	ф	Apr Jan	27.11	6313
Etam	♣♣v□	184	-4.2	8.25	0.2	Jan Jul	4.12	2489
Fine Art Devs	♣†v□	438	3.5	15.5	2.1	Jan Jul	22.12	2583
Fired Earth	♣v	68	—	1.0	2.8	Nov	9.10	2207
Flying Flowers	♣†□	130	-3.7	Q2.68	3.2	Oct Apr	2.10	2789
French Connect	♣v	185	—	–	–	–	5'92	2633
Frost	♣†v□	124	-20.0	6.4	1.7	Jul Jan	27.11	1250
Gieves	†v	76	-2.6	2.0	2.2	Jul Mar	8.10	2694

SUPPORT SERVICES

SUPPORT SERVICES - Cont.

TELECOMMUNICATIONS

TEXTILES & APPAREL

TOBACCO

TRANSPORT

WATER

AIM

AIM - Cont.

AMERICANS

CANADIANS

SOUTH AFRICANS

	Notes	Price	W'k% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
Anglo Am Ind		£33¾	-2.2	Q478c	2.4	Oct Apr	3'93	–
Barlow	♣	210½	-1.7	084c	ф	Jan Jul	11.12	–
Gold Flds Prop R		165	3.1	080c	2.1	Feb Sep	1'94	–
MK Props.		95	-1.0	Q87.1c	–	Feb Sep	10'93	–
SASOL	♥	599	-2.6	078c	–	Oct	9'93	–
SA Brews		£24½	-2.7	0200c	2.1	Jun Dec	27.11	–
Standard Bank	□	£32¼	-1.0	0264c	3.1	Sep Mar	–	–
Tiger Oats		1240	-2.4	0108c	ф	Jan Aug	11.12	–
Tongaat-Hulett	†	1183	-3.6	Q110c	2.7	Jan Jun	4.12	–

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by FT Extel, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown. Prices and net dividends are in pence unless otherwise indicated.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Dividend covers are based on "maximum" distribution; unless "v" is shown in the Notes field, indicating that the cover is calculated on a "net" basis. Market Capitalisations are published on Tuesdays-Saturdays except for Investment Trusts and British Funds.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ф Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ♣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- # Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend, cover based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Annualised dividend. b Figures based on prospectus or other official estimates. c Cents. g Assumed dividend. h Assumed dividend after scrip issue. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend excludes a special payment. t Indicated dividend: cover relates to previous dividend. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v P/e ratio & net cover calculated under new ACT guidelines. z Dividend includes a special payment: Cover does not apply to special payment. F Dividend based on prospectus or other official estimates for 1994-95. G Assumed dividend after pending scrip and/ or rights issue. H Dividend based on prospectus or other official estimates for 1995. K Dividend based on prospectus or other official estimates for 1996. L Estimated annualised dividend, cover based on latest annual earnings. M Dividend based on prospectus or other official estimates for 1995-96. Q Gross. R Forecast annualised dividend, cover based on prospectus or other official estimates. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xR ex capital distribution

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1350 a year for each security shown, subject to the Editor's discretion

FT Share Service

Additions: Aberdeen Stk (Brews Pubs & Rest), McCarthy & Stone 8¾% Prf (Bldg & Cnstn), Brit & Amer Inv (Inv Tst), Jupiter Split Inc, Do Cap, Do Units, Do Annuity, Do Zero Div Prf (Inv Tst Split Cap), Galaxy Media (Media). *Deletions:* Ramus (Bldg Mtls), Dobson Pk (Eng), Malaysia Mng (Ext Inds), Brit Empire & Sec Wrts, Edinburgh Drgn Wrts (Inv Tst), Baring Chrysalis Wrts (Inv Cos), Casket (Leis & Htls), Brit Biotech Wrts (Pharm), Asprey (Rtlrs Gen), Unipalm (Support Svs), Albion (Text & Appl).

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OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Fidelity Currency Funds Ltd

Jupiter Tyndall (Bermuda) Ltd

Newport Investment Management

Orion Fund Limited

BERMUDA (REGULATED)(**)

Bermuda Intl Invest Mgmt Ltd

Butterfield Management Co Ltd

GUERNSEY (SIB RECOGNISED)

Royal Bk of Canada O/S Fd Mgrs Ltd - Contd.

Sarasin Funds Mngmt (Guernsey) Ltd

Schroder Investment Mngmt (Guernsey) Ltd

GUERNSEY (REGULATED)(**)

ANZ Mngmt Co (Guernsey) Ltd

Apollo Investment Management Ltd

Arab Bank Fund Managers (Guernsey) Ltd

BZW Asset Management Guernsey Ltd

IRELAND (SIB RECOGNISED)

Guinness Flight Select Funds Plc

Hambros Fund Managers (Ireland) Ltd

Henderson Crosthwaite Investment Co

LGT Asset Management Ltd

Chemical Ireland Fund Administrators Ltd

Citi Investment Fund (Ireland)

Citizens Investment Trust Mngt Company

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

Ashburton Global Funds Ltd (1200)

Bank of Ireland Asset Mngmt (IOM) Ltd

Clif Fund Managers (IoM)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

John Govett Management (Jersey) Ltd

INVESCO International Limited

Jupiter Tyndall (Jersey) Ltd

Lloyds Private Banking (CI) Ltd

Lombard Odier (Jersey) Ltd

JERSEY (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

Eagle Star – Global Assets Fund (z)

LUXEMBOURG (REGULATED)(**)

Nikko Capital Management

Nomura Global Fund (z)

PRICOA Worldwide Inv Portfolio Sicav (z)

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FT MANAGED FUNDS SERVICE

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	Selling Price	Buying Price	Yield Gross	City-Line
Credit Investment Funds - Contd.	[illegible]	[illegible]	[illegible]	[illegible]
Nikko Asia Convertible Bond Fund	[illegible]	[illegible]	[illegible]	[illegible]
Nikko Bank (Luxembourg) S.A.	[illegible]	[illegible]	[illegible]	[illegible]
Nomura Asian Infrastructure Fd SICAV	[illegible]	[illegible]	[illegible]	[illegible]
Pacific Basin Growth Fund	[illegible]	[illegible]	[illegible]	[illegible]
CMI Insurance Co Ltd	[illegible]	[illegible]	[illegible]	[illegible]
Royal Life International	[illegible]	[illegible]	[illegible]	[illegible]
Capital International	[illegible]	[illegible]	[illegible]	[illegible]
Cathay Investment Fund Limited	[illegible]	[illegible]	[illegible]	[illegible]
Chameleon Funds Limited	[illegible]	[illegible]	[illegible]	[illegible]
Clasecor Indian Investment Company Ltd	[illegible]	[illegible]	[illegible]	[illegible]
Global Asset Management - Contd.	[illegible]	[illegible]	[illegible]	[illegible]
Magellan Emerging Mkts Mngt (Jersey) Ltd	[illegible]	[illegible]	[illegible]	[illegible]
Magnum Funds	[illegible]	[illegible]	[illegible]	[illegible]
Malaysia Capital Fund Ltd	[illegible]	[illegible]	[illegible]	[illegible]
Republic Funds	[illegible]	[illegible]	[illegible]	[illegible]

OTHER OFFSHORE FUNDS

[illegible]

OFFSHORE INSURANCES

[illegible]

MANAGED FUNDS NOTES

[illegible]

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

4 pm close February 2

1995/96 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chg'ge Prev. Close
22⅛	12⅛	AAR x	0.48	2.3	26	82	20⅞	20½	20¾	
46¼	35	AMP x	1.00	2.5	20	8202	39½	38½	39⅞	+⅞
80¼	53⅜	AMR			31	5046	78¼	77⅛	78⅛	+1⅛
50	36⅛	ASA	1.71	3.4	32	2350	u50	48⅞	49⅝	+1
44¾	30¾	Abbott	0.84	2.0	20	18230	43¾	42⅝	43	
18⅞	12	AbitibiX Pr	0.40	2.4	6	925	16⅝	16½	16⅝	
28½	21	ABM Ind	0.70	2.5	15	15	27⅞	27¾	27¾	
17½	13⅛	Acapulco			10	476	15⅜	15	15¼	+⅜
44¾	21⅞	ACE Ltd	0.56	1.3	10	2421	u44¾	44⅞	44¾	+¼
9⅞	8⅛	ACM Gvt In x	0.90	9.4	8	324	9⅝	9⅝	9⅝	-⅛
7⅞	6½	ACM GvOpp x	0.66	8.5		119	7¾	7⅝	7¾	
7½	5¾	ACM Gvt Sp x	0.75	10.7		142	7⅛	7	7	-⅛
9	7¼	ACM Gvt Se x	0.90	10.1		510	u9	8⅞	8⅞	
9½	7⅝	ACM Man x	0.90	9.9		211	9⅛	9	9⅛	
29¼	10¼	AcmeClv x	0.52	2.8	4	22	18¾	18⅝	18⅝	-⅛
38¾	7⅞	Acme Elect			66	128	8⅛	7⅞	8	
34½	23¾	Acordia	0.72	2.5	15	255	29¼	29	29	-½
16¾	10⅛	Acuson			46	357	14⅞	14¾	14⅞	+⅛
19⅝	15⅝	Adams Expr	0.36	1.9	0	290	19½	19	19	-⅛
38⅞	16¼	AdvMic			7	4218	20½	19⅞	20⅛	-¼
9⅞	5	Advest Grp	0.16	1.7	9	49	9¾	9⅝	9⅝	
27½	16½	Aetna Inc	0.10	0.5	22	843	21½	21	21¼	+⅛
46¾	24.80	Aegon	1.28	3.1	15	48	42¼	41⅞	42	-⅛
5⅞	3⅛	Aerflx			7	213	3¾	3⅝	3¾	
76¾	46¾	AetnaL x	2.76	3.7	35	3471	74⅝	74¼	74½	+¼
49½	31⅞	AFlac	0.52	1.1	14	3471	49⅛	47¾	48¼	-⅞
28⅜	16	Ahmanson	0.88	3.7	7	5379	23⅞	23⅛	23¾	+⅛
59½	43⅞	AirPrC	1.04	2.0	15	3473	53¼	52¼	52½	-¾
29⅛	18¾	Airbne Frt	0.30	1.1	25	1250	27¼	26½	26⅝	-⅜
36	19⅝	Airgas Inc			30	1116	u36	35¾	35⅝	-⅛
18	13⅜	Airlease	2.00	11.3	12	45	17¾	17½	17¾	+⅛
35⅝	24	AirTch			117	11598	29¾	29⅛	29⅜	+¼

[illegible]

Continued on next page

4 pm close February 2

NYSE COMPOSITE PRICES

Continued from previous page

25¾	19½	Yankee Egy	1.26	5.2	17	51	24⅜	24⅛	24¼	
48½	34⅛	York Int	0.24	0.5	17	341	46¾	46¼	46¾	-⅛
4½	2½	Zapata	0.14	4.5	22	398	3⅛	3	3⅛	
12⅛	5⅞	ZnithEl			4	260	6⅞	6⅝	6¾	
24⅝	19⅝	Zenith Nat x	1.00	4.3	33	38	23⅜	23⅛	23⅜	-¼
6⅞	6⅛	Zenix Inc	0.72	10.7		156	u6⅞	6¾	6¾	
17⅞	12⅝	Zero x	0.44	2.6	16	1353	17⅛	16¾	16¾	-⅜
26	16⅞	Zurn Ind	0.40	1.8	17	243	22⅜	22⅛	22¼	-¼
11½	10¼	Zweig Fund	1.12	10.2		463	11⅛	11	11	-⅛
9	7⅞	Zweig Totl	0.84	9.6		422	8⅞	8¾	8¾	

Price data supplied by Telekurs

Yearly highs and lows for NYSE reflect the period from Jan 1 1995. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

d-new yearly low. P/E price-earnings ratio. ds-sales. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.

Dealings suspended.

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AMEX COMPOSITE PRICES

4 pm close February 2

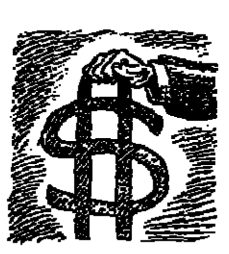
NASDAQ NATIONAL MARKET

4 pm close February 2

FT GUIDE TO THE WEEK

MONDAY 5

US budget presented



The Clinton administration presents its budget for the 1996-97 fiscal year, starting in October. This time it is a totally academic exercise because half the budget for the current fiscal year has still not been agreed by the president and Congress and no overall balanced budget agreement has been reached. Hence, the budget documents will be but a fraction of their normal size. However, the annual report of the president's council of economic advisers, scheduled to be published on February 14, will be the usual weighty tome.

CGT protest in France

France's pro-Communist CGT union launches a week of protests against government austerity reforms.

The CGT is demanding that Alain Juppé, the prime minister, withdraw his social security reforms and calling on wage-earners, the unemployed and the young to take part in the protest week. The union plans petitions and demonstrations in several cities but few stoppages in the private sector. It is, however, calling out public sector workers in local administration on Tuesday.

Japan-US air cargo talks

US and Japanese trade negotiators begin three days of meetings in Tokyo in a dispute over air freight rights in their 1952 bilateral aviation treaty. The rift concerns their relative share of "beyond rights", under which carriers can pick up a load in one country and proceed to others. Tokyo says US airlines have a disproportionately large share of routes through Japan to fast-growing and profitable Asian destinations. The US suggests all restrictions should be dropped under a plan christened "open skies".

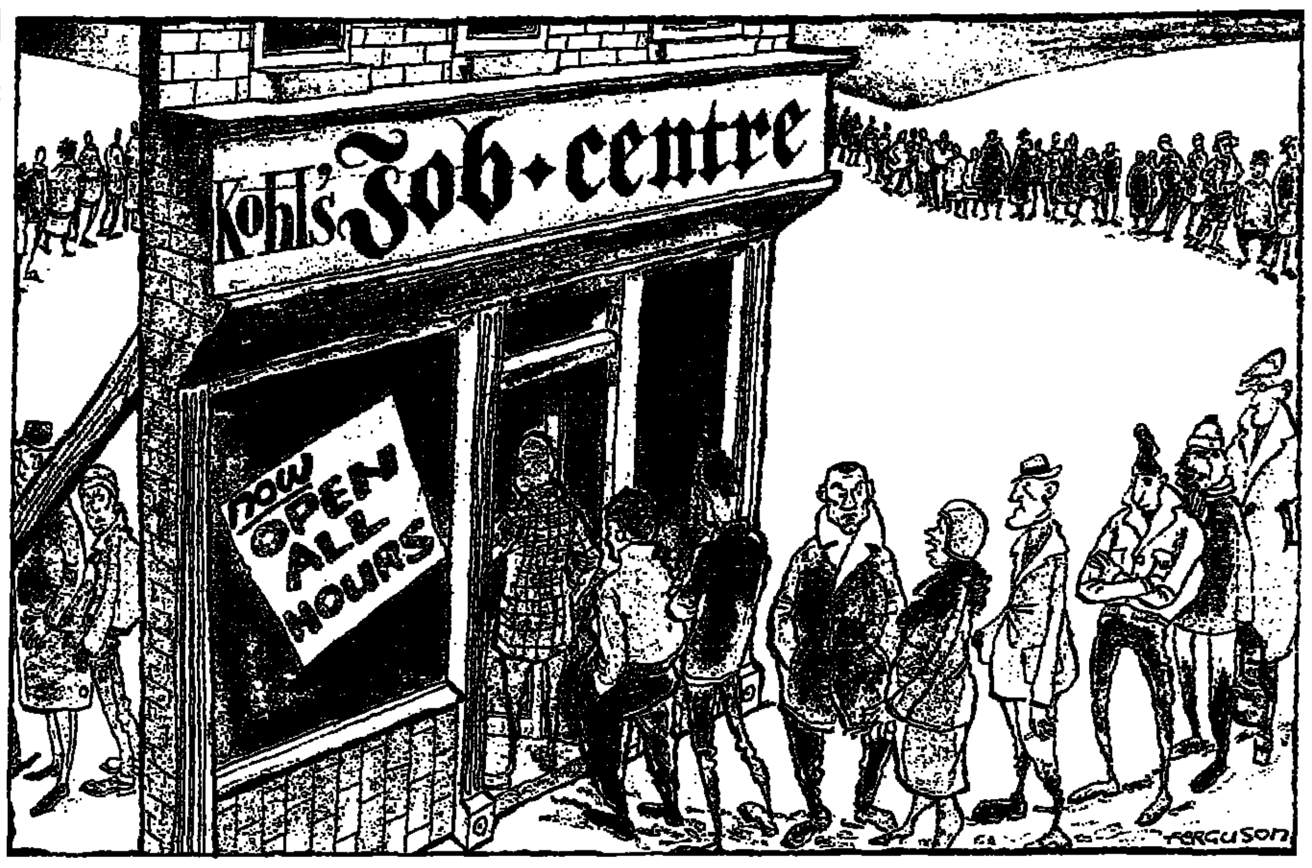
Japan does not want to do this until its airlines are allowed a comparable number of beyond rights through the US. It has proposed a staged plan under which new US routes through Japan would be limited until Japanese airlines have caught up.

González visits Morocco

Felipe González, the Spanish prime minister, heads a team of ministers for a two-day meeting in Rabat. Spain and Morocco are trying to turn over a new leaf in their relations after a bad year marked by quarrels and tensions over fishing rights. In Madrid the visit is seen essentially as a political exercise. Although the two countries agreed to annual get-togethers almost five years ago, this will be the first since 1993.

Repsol price fixed

The final share price in the fourth privatisation issue of Repsol, the Spanish oil, chemicals and gas group, is fixed after trading in New York. The issue, which is expected to raise $1.1bn (£710m), was about five times over-subscribed in the UK. Sepi, the state-owned industrial holding, is placing 33m shares on offer which will reduce the government stake from 21 per cent to 10 per cent.



On Thursday the Bundestag debates measures aimed at boosting growth and employment in Germany

Pope tours Latin America

Pope John Paul visits Guatemala, Nicaragua, El Salvador and Venezuela in a tour that the Catholic church hopes will help to stem the rising tide of Protestantism in Latin America. The moral strictness of the Protestant churches and sects, and the ease with which a person of charisma may become a pastor, are among the reasons cited for their growth. In response to the emotional appeal of the evangelical groups, which are at the vanguard of the region's Protestant movement, a charismatic Catholic church has sprung up.

Public holidays

Burundi, Mexico, Mozambique, Sri Lanka, Thailand.

TUESDAY 6

UN seeks Iraq deal

The United Nations opens talks with Iraq in New York in a new bid to persuade Saddam Hussein to agree to sell up to $2bn (£1.2bn) of Iraqi oil over six months, mainly to pay for badly needed food and humanitarian supplies. Baghdad has so far rejected this relaxation of sanctions – which the security council approved last April – on the grounds that UN control of oil sales would violate its sovereignty. Mr Saddam also strongly opposed a plan to distribute food to Kurdish rebels and other dissidents. Council members, led by the US which holds the presidency this month, have stressed the "food for oil" plan is non-negotiable. However, Baghdad's agreement to talks has encouraged a belief that a breakthrough may be possible.

Hotelympia '96

Hotelympia '96, the hospitality industry's biggest exhibition in the UK, opens at Earl's Court (to Feb 11). The organisers, Reed Exhibition Companies, expect 60,000 visitors. Hotelympia, which has been held annually at Olympia for the past 60 years, has 800 exhibitors and among the products are fresh flowers that last for three years, an all-in-one patisserie and ice-cream machine, and a kitchen system that does away with saucepans.

Louisiana caucuses

Louisiana's Republican party caucuses, a non-binding event, are held in spite of being shunned by Bob Dole, the Senate majority leader, and several other candidates. They are seen as a mischievous attempt to pre-empt the Iowa caucuses on February 12. However, interest still attaches to whether Phil Gramm, the Texas senator, or Pat Buchanan, the ultra-conservative polemicist, finishes first or if the millionaire publisher Steve Forbes's recent surge in popularity confounds both of them.

Public holidays

New Zealand (Waitangi Day).

WEDNESDAY 7

Haiti president installed

René Préval is installed as Haiti's president, succeeding Jean-Bertrand Aristide, a former priest whose term was interrupted by a military coup. Mr Préval easily won last month's election, aided by open support from the popular Mr Aristide.

The outgoing president's supporters wanted him to stand again, but the constitution bars successive terms. Mr Preval's first task will be to decide whether to implement potentially unpopular economic reforms – eschewed by Mr Aristide – on which depend urgently needed foreign aid and loans.

Hypersonic aircraft launch

Japan's National Space Development Agency (Nasda) launches an experimental, unmanned hypersonic aircraft to gather data for the development of a Japanese spaceshuttle – a prototype of which is scheduled for launch in 2000. The craft, named Hyflex, looks like a catfish and will fly for four minutes up to an altitude of 110km at speeds exceeding Mach 15.

Its flight is to study the effects of heat generated by air friction. Destined to splash down near the Ogasawara islands off Tokyo, Hyflex will be carried on Nasda's new J-1 three-stage rocket and launched from the Osaki space complex in Tanegashima.

Benelux talks on Maastricht

The prime ministers of Belgium, Luxembourg and Netherlands meet in The Hague for talks on reviewing the Maastricht Treaty, in preparation for the launch of the European Union's inter-governmental conference.

FT Survey

FT Review of Information Technology.

Public holidays

Grenada.

THURSDAY 8

Bundestag debates jobs plan

The German government's plan to boost growth and jobs is debated in the Bundestag, the lower house of the Bonn parliament, while the federal labour office in Nuremberg is expected to announce that unemployment set a post-war record of more than 4m in January. The German trade union federation has calculated that unemployment rose by 250,000 last month, lifting the jobless rate well above 10 per cent. Meanwhile, the Bundesrat, Germany's upper house of parliament, is to issue a statement this week on extending the restrictive shop hour laws.

Vote on Lithuania's PM

Lithuania's parliament decides the fate of Adolfas Slezevicius, the prime minister, under increasing pressure as the Baltic country's banking crisis rumbles on. The president has signed a decree sacking Mr Slezevicius, a reformed communist. But a majority in parliament must support the decision to topple the government. If passed, a new prime minister is likely to emerge from the ruling Lithuanian Democratic Labour Party, the successor to the Soviet communist party which backs economic reform.

Prince Charles in Bosnia

Prince Charles starts a two-day visit to British troops in Bosnia and Croatia. He will meet UK service personnel with Ifor, the Nato-led peace implementation force, and is to visit Sarajevo and Dubrovnik.

Angola arms deadline

The Unita rebels in Angola promise to hand over the weapons of 16,500 fighters at UN-supervised assembly camps in what could mark a settlement of Africa's longest civil war. This coincides with a review by the UN Security Council of its six-monthly mandate for its peacekeeping mission in Angola, which costs the UN about $1m a day.

FT Survey

Singapore, Slovenia.

Public holidays

Iraq, Slovenia.

FRIDAY 9

Mandela opens parliament

The violence in KwaZulu-Natal will be high on the agenda when Nelson Mandela, the president of South Africa, gives his annual state-of-the-nation address at the opening of the first session of the 1996 parliament in Cape Town. Mr Mandela will be looking to placate Zulu royalists embroiled in the row between the African National Congress, the majority party in the government of national unity, and the Inkatha Freedom Party, the majority party in KwaZulu-Natal.

Mastering Management

The FT's 20-part series continues in the UK edition with part 14. Non-UK readers can take out a subscription. Contact: PO Box 384, Sutton, Surrey, SM1 4XE, UK. Tel: +44 181 770 9772, Fax: +44 181 643 7330.

Public holidays

Lebanon.

SATURDAY 10

Christopher in Helsinki

After turning down an invitation to Moscow from Russia's new foreign minister, Yevgeny Primakov, the US Secretary of State, Warren Christopher, meets Mr Primakov in Helsinki (to Feb 11). The meeting indicates an easing in the recent friction that has arisen between the two countries following the sacking by Boris Yeltsin, the Russian president, of top liberals from his administration and Russia's use of force against the Chechen rebels.

Public holidays

Malta.

SUNDAY 11

Australian election TV clash

The pace of Australia's federal election campaign quickens with the Labor party's Paul Keating, the prime minister, and John Howard, the coalition opposition leader, confronting each other in the first of two televised debates. Labor supporters are hopeful Mr Keating's pugnacious campaign style will redress the coalition's lead in the opinion polls.

Elections in Chad

The first round of presidential elections begins in Chad. A run-off will be held in three weeks' time if no candidate emerges with a clear majority.

Skiing

The world alpine skiing championships start, a year late, in the Sierra Nevada resort near Granada in southern Spain. The two-week event had to be called off last year because of a lack of snow. Organisers are confident this will not happen again, saying the region has just had its heaviest snowfall for 30 years.

Public holidays

Iran (Revolution Day), Japan.

Compiled by Simon Strong. Fax: (+44) (0)171 873 3194.

ECONOMIC DIARY

Other economic news

Monday: UK M0 money supply growth is expected to have slowed last month but is still thought to be above its monitoring range. Danish gross domestic product is forecast to have expanded slightly in the third quarter of last year.

Tuesday: Most economists expect overall UK industrial production to have risen in December but manufacturing output is forecast to have fallen slightly.

Wednesday: Mr Kenneth Clarke, the UK chancellor, meets Mr Eddie George, governor of the Bank of England, for their regular monthly monetary meeting. French industrial production is expected to have dropped in the third quarter of last year. Some economists think US consumer credit growth slowed in December.

Thursday: The rise in German unemployment is forecast to have slowed last month. Economists think the Australian unemployment rate rose last month.

Friday: The Confederation of British Industry's trades survey will indicate how retailers fared last month. Canada's unemployment rate is thought to have been unchanged last month.

Statistics to be released this week

Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
Mon	UK	Jan M0*	-0.3%	1.2%
Feb 5	UK	Jan M0**	5.8%	5.9%
	Canada	Jan foreign reserves, change	0.1%	0.2%
	Canada	Dec building permits*	0.1%	-4.1%
Tues	US	Johnson Redbook Feb 3	-	N/A
Feb 6	Japan	Dec current a/c (IMF)	$10.1bn	$12.7bn
	Japan	Dec trade balance (IMF)	-	$14.9bn
	Japan	Dec foreign bond investment	-	$3.6bn
	UK	Dec industrial production*	0.3%	0.5%
	UK	Dec industrial production**	1.5%	1.9%
	UK	Dec manufacturing output*	0.1%	0.5%
	UK	Dec manufacturing output**	0.7%	0.5%
	Canada	Nov labour income*	0.0%	-0.2%
Wed	US	Nov trade: goods & services	-$8.4bn	-$8.0bn
Feb 7	US	Nov G&S export (bal of payments)	$66.7bn	$66.7bn
	US	Nov G&S import (bal of payments)	$75.0bn	$74.8bn
	US	Dec consumer credit	$8.5bn	$8.6bn
	France	3rd qtr industrial production***	-0.3%	0.1%
Thur	US	Initial claims w/e Feb 3	380,000	-
Feb 8	US	Weekly M3 w/e Jan 29	-$5.0bn	-
	Germany	Jan unemployment, West†	20,000	33,000
	Germany	Oct employment, West†	-10,000	-16,000
	Germany	Jan vacancies, West	-	3,000
	Germany	Jan short-time, West	-	16,000
	Aus'lia	Jan unemployment rate†	8.3%	8.1%
Fri	US	Jan bank credit	-	1.3%
Feb 9	US	Jan C & I loans	-	4.2%
	Japan	Jan Bank of Japan bank data	-	N/A
	N'lands	Dec producer price indx**	0.7%	0.3%
	N'lands	January consumer price indx*	0.3%	-0.4%
	N'lands	January consumer price indx**	1.7%	1.6%
	Denmark	Nov retail sales indx	108.4	107.9
	Denmark	Dec retail sales indx	108.9	N/A
	Norway	Jan consumer price indx*	0.3%	0.0%
	Norway	Jan consumer price indx**	1.9%	2.2%
	Sweden	Jan unemployment rate	8.3%	7.8%
	Arg'tina	Dec trade balance	-$150m	-$139m
	Mexico	Jan consumer price index*	3.1%	3.26%
During the week...				
	Germany	Dec manufacturing orders, West*	0.0%	-0.7%
	Germany	Dec capital a/c	-	-DM3.0bn
	Germany	Nov trade balance	DM7.8bn	DM8.5bn
	Germany	Nov current a/c	-DM1.8bn	-DM4.1bn
	Germany	Dec final M3 (4th qtr '94)	-	1.9%
	Germany	Jan final cost of living, West*	-	0.3%
	Germany	Jan final cost of living, West**	-	1.5%
	Germany	Ditto, pan-Germany*	-	0.3%
	Germany	Ditto, pan-Germany**	-	1.8%
	France	Dec M3*†	0.9%	1.4%

*month on month, **year on year, ***qtr on qtr, †seas/adj *Statistics, courtesy MMS International.*

MONDAY PRIZE CROSSWORD

No.8,985 Set by CINCINNUS

A prize of a Pelikan New Classic 380 fountain pen for the first correct solution opened and five runner-up prizes of £35 Pelikan vouchers will be awarded. Solutions by Thursday February 15, marked Monday Crossword 8,985 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Monday February 19. Please allow 28 days for delivery of prizes.

Name

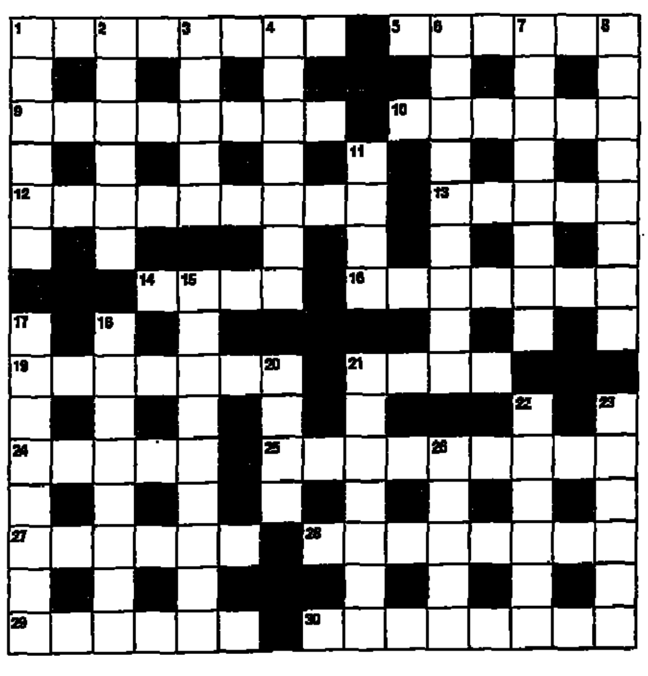
Address

ACROSS

1 An abundance of punishments (8)
5 Killer's hat? (6)
9 Produce revolutionary deviation with a raised path (8)
10 Toneless altercation? (6)
12 Surprising loss-leader in the beginning (9)
13 Woman contributing to Internet helpline (5)
14 Stream or river by ancient city (4)
16 Irreverent native warriors love America (7)
19 Vehicle for cheese provided shortly? (7)
21 Nonsense on a list (4)
24 Duck always devouring fish (5)
25 Tree seen in pure light? (9)
27 Name of female boxer with male child (6)
28 Instruments still existing on board (8)
29 Name for both sexes, evenly distributed (6)
30 Twisted and left helpless (8)

DOWN

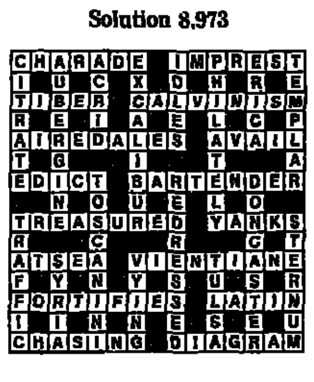
1 Migratory insect seen in tree (6)
2 Use art training as an artist (6)
3 Date and time that is written in full (2,3)
4 A craftsman more sluggish after midnight (7)
6 Immediately placed in an awkward situation (2,3,4)
7 God, the one without end, or all the gods (8)
8 Some freckles, spots or rash (8)
11 Fruit gateau glibly demanded (4)
15 Preceding one who is right with tender prayer (9)
17 Renounce agent, be a producer (8)
18 Oscar's protecting tree from rapidly spreading conflagration (8)
20 Sheep heard in the evergreens (4)
21 Purpose in payment for dress (7)
22 Find enclosed what is written (6)
23 Entertained in the morning, then exploited (6)
26 Crowd scene actor appears in special edition (5)



Winners 8,973

B. Towers, Buxton, Derbyshire
J. Buckley, Grotton, Lancs
Mrs O. Forsyth, Wallington, Surrey
G. Marsh, Crawley, West Sussex
J. Masud, London W2
J. Standeven, London N12

Solution 8,973



JOTTER PAD

BUSINESS EDUCATION

Richard Donkin visits GKN which believes in investing time, money and effort to develop its graduate recruits

Two-way stretch

The question was direct enough. Would the board consider a substantial acquisition or merger, maybe with Lucas or British Aerospace, that sort of company? It was posed to Brian Insch, human resource director of GKN, the automotive engineering group, by one of its new finance graduates at a company induction meeting.

It was one of those questions that hung in the air as Insch registered the sideways glances of his fellow executives. After all, quite a few analysts, journalists, fellow industrialists – not to mention several thousand investors – might have been interested to look for some clues in his reply. Using carefully chosen words he says it was something that was reviewed but not part of the board's "basic thinking".

"We get many good questions from the graduates at sessions like this, often better than those from experienced managers," says Derek Southon, manager of the group graduate development scheme. "They tend to ask some extremely pointed questions which some of the mangement would hesitate to ask."

This point has not been lost on GKN which has invested time, money and effort into creating a graduate development scheme that is widely recognised among university careers advisers and students as being one of the best that UK industry can offer.

"The GKN scheme has been well thought out so that it stretches graduates and gives them responsibility at the beginning of their career," says Colin Graham, director of Yellowbrick, a consultancy which specialises in graduate employment.

The group scheme, now five years old, evolved from an idea pioneered in the company's research and technical department. Graduates spend two years working on a series of projects across different divisions of the company prior to being given a permanent placing. The scheme includes language training and the promise of working abroad within six months of starting their jobs.

"I was looking for a company with a global business," says Robert Perkins, one of the current intake, who was impressed with the prospect of working abroad. "That sold it for me and for other people. The language training is another big plus. That is clearly going to be useful for all of us."

Competition for the GKN scheme is high: the company receives about 1,100 applications each year for about 30 places. Roger Wilson, now in his second year on the programme, says: "I never applied for any other companies. I met with GKN in the January and was offered a firm place which took away the pressure of looking for a job in that final year."

Wilson has been carrying out a project examining the features of constant velocity joints made by competing manufacturers. Graduates might expect to do about five such projects.

Fiona Harding, account manager for Chep (UK), part of GKN's pallet business, joined the company four years ago. She found herself in her second year devising a sales and marketing programme. "I did five projects for five different line companies here and in Germany. This gives you the opportunity to decide what you want to do. A lot of this scheme is about managing your own career," she says.

The projects must be put forward by the management of the various divisions to a steering committee which assesses them and tries to match the competencies that graduates will be learning to those they need. This ensures that the scheme members receive a grounding in a variety of basic skills.

Each graduate has a mentor, a manager from outside the project with whom they can discuss problems. The managers are given training in mentoring. One of them, Bob Allsopp, managing director of GKN Technology, the research and development division, says: "Mentoring is not easy. It's a people skill and you have to work at the relationship."

GKN's float for the Lord Mayor's show in London, built by graduate trainees

The mentors, however, are an important point of contact if the graduate has concerns about the project. "Everyone involved in the scheme on the management side is aware that this is not a resource pool but a future skill pool. They need to bring people in to join them in the projects, providing tasks that are going to stretch them and address their competencies," says Allsopp.

Russell Osborn was sponsored by GKN Technology in his engineering degree and spent a year with the company before going to university. He says: "That experience was invaluable because part of my time was spent getting hands-on experience of engineering processes in the workshops. It means that if I go into a factory I know what is happening. I know how a lathe works because I spent four months working one." With a job assured after graduating he delayed entry into the programme for a year, working in Tanzania.

The company says that it does not quantify the cost of the programme because benefits can be both long and short term. When one of the students asked how soon they would be paying their way she was told that some of them would be working on projects that would bring results very quickly.

The philosophy is explained by Jon Wilkins, a graduate who is now in his second year on the scheme. "The projects you are assigned to on the graduate scheme are jobs that need to be done. They're not made up to teach graduates. You learn by doing."

Scots brave the top directors

James Buxton investigates the latest training for executives

The label AMP (Harvard) appears after the names of three of the top 12 executives at the Bank of Scotland, indicating that they were sent on the well-known advanced management programme at Harvard Business School. But in future some executives will be able to put the words AMP (Scotland) in their curriculum vitae.

This is because in June the first advanced management programme to be offered in Scotland will be held at the University of Aberdeen. Like other AMPs it is aimed at managers approaching the top rung of the corporate ladder. But whereas the Harvard course lasts 12 weeks the Scottish AMP will take only two, as many companies are unwilling to spare executives for three months.

The creation of the AMP in Scotland, as it is called, is an initiative by Scottish companies and public bodies to upgrade the education Scotland offers to senior executives and save them going to the US or England. But it will not be draped in tartan. People from leading Scottish companies should not occupy more than a third of its 40 places. "Companies here don't want to send their best people just to talk to fellow Scots," says Peter Mackay, the former civil servant who directs the programme. Instead a third should come from England and a third from further afield.

Although some of the instructors (or faculty, in management school jargon) teach at Scottish universities there are also heavyweight international figures: Robert Glauber, a former chairman of the Harvard AMP and once under secretary of the US treasury; Marc Bertoneche, professor of finance at Insead, in France; Carl Kester, professor of business administration at Harvard; and Gordon Hewitt, the Glasgow-born visiting professor of business strategy at the University of Michigan.

The subject of the programme will be finance, strategy and value.

The intention is to mount at least one AMP a year in different Scottish cities. This year's programme costs £7,500, including a mid-course weekend at Gleneagles.

BUSINESS TRAVEL

Crashing computer raises spectre of worse

Ancient air traffic control technology at Chicago O'Hare is causing concern, says Amon Cohen

It is 20 years since International Business Machines stopped making a mainframe computer called the 9020E. Instructions are fed into the machine on punch-cards that would bring an affectionate smile to anyone nostalgic for the pioneering days of computing.

However, an antediluvian 9020E is used to co-ordinate traffic into and out of the busiest airport in the world. Each week, 954,000 passengers fly out of Chicago's O'Hare airport. They are at the mercy of the 9020E, a machine so superannuated that its innards are made up of vacuum tubes.

The Federal Aviation Administration, which operates US air traffic control, imports these tubes from eastern Europe. The FAA is the largest remaining US user of vacuum tubes.

Such information hardly inspires confidence among travellers, and there is evidence to suggest that they may have grounds to be concerned about their safety.

According to Robert Crandall, American Airlines chairman and chief executive, the FAA's traffic control equipment suffered 21 significant failures in 1995, not only in Chicago but also in New York, Oakland, Dallas/Fort Worth and Washington, among other places.

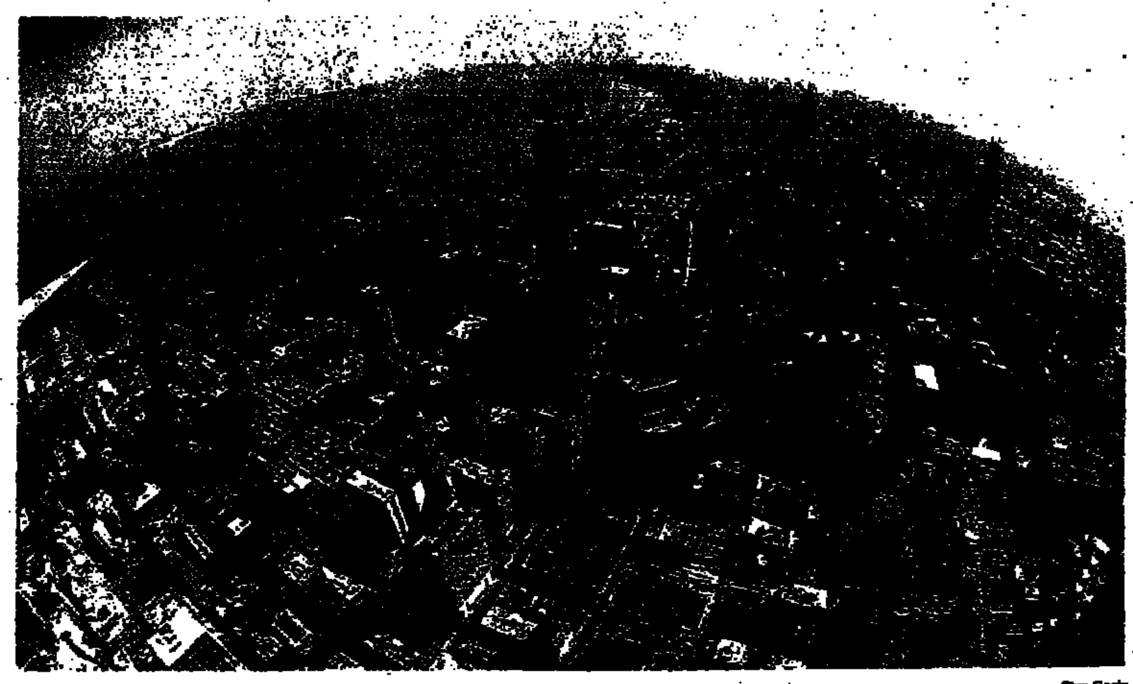
Chicago's traffic control, which is co-ordinated from the Air Route Traffic Control Center in Aurora, Illinois, has one of the worst records, its 9020E experiencing seven crashes (or "outages", as Americans call them), last year, including three in one July week.

The most serious of these occurred on September 13 last year, when the computer failed to restart correctly after being shut down for repairs the previous night. Like all other traffic control centres, Aurora has a back-up computer for such contingencies, but in this case that machine also crashed. Fortunately, that was all that crashed – although it was a close-run affair.

For 11 minutes, air traffic controllers were unable to monitor aircraft sufficiently closely to prevent a mid-air collision, should such a thing have been on the cards. As Ron Downen, air traffic controller, told Chicago radio station WBBM that morning: "Right now, we're kind of working with our fingers crossed."

Even though the controllers had abandoned science in favour of superstition, the magic seemed to work. There was only one near miss: near Ottuma, Iowa, a pilot of a commuter aircraft took evasive action after realising he was within 3.5 miles horizontally and 700 ft vertically of an aircraft. The standard aircraft separation is five miles horizontally and 1,000 ft vertically.

Despite this, aviation officials contend that US airspace does not pose a threat to passengers. A statement issued two weeks later by Monty Belger, the FAA administrator for air traffic services, claimed it was "the most complex and safest airspace in the world".



Glyn Genin

Chicago: the safety of the 954,000 passengers who use the city's airport each week depends on an elderly computer

Recent "outages" had been of serious concern to the FAA, said Belger. As a result, the administration had devised an action plan to address the problem and minimise them.

Clive Medland, a former Royal Air Force pilot who lives in the US as vice-president of SH&E, an aviation consultancy, agrees there is not much of a threat to safety, but says there is "a definite threat to passenger convenience because of the delays caused by outages".

He adds: "If nothing is done, increased delays will be a definite consequence, and there will also be a decrease in safety margins. The whole infrastructure is badly in need of replacement."

His remarks are borne out by the Chicago incident. There were no crashes, but at one point more than 100 aircraft were forced to tarry on the ground at O'Hare, waiting for the system to be restored. A ripple effect led to delays at other airports for aircraft bound for Chicago.

It is the question of delays which particularly concerned Robert Crandall when he addressed the US aviation industry recently.

Crandall told his audience that, according to the US Air Transport Association, there are approximately 20,000 flight delays a day, each lasting an average of 6¼ minutes. Those delays, Crandall said, cost US airlines $4bn a year.

Small wonder, then, that Crandall told his audience: "The number one item on our list is to get our government – and specifically, the FAA – to accelerate the upgrading of the US air traffic control system."

Perhaps things will happen this year. President Bill Clinton is sympathetic. Shortly after the Chicago incident, he described the traffic control situation as "unacceptable" to a White House conference on travel and tourism. "Believe it or not, the air traffic control system in many places still depends upon stone-age technology that is often older than the flight controllers using it," said the president.

There is also, according to Crandall, sympathy in Congress to increased funding, although the stand-off on the federal budget between Congress and the White House has not helped. Even US airlines, notoriously reluctant to part with their cash, are considering financing traffic control improvements. Crandall advocated such a move in his speech.

However, says Clive Medland, the issue is not merely a question of agreeing to put up more money. "Procurement and funding procedures at the FAA are so bureaucratic that by the time a project has gone through the authorised channels, whatever was being looked at has become out of date," he says.

Furthermore, what is given to the FAA with one hand is taken back with the other. During the past two years, the FAA has cut its budget by $600m (£397m) and reduced its workforce by 5,000.

Air traffic during the same period grew 6 per cent. An 18 per cent increase in commercial airline operations is expected by the year 2002, yet current budget proposals call for the FAA to axe a further 12,000 of its workforce of 48,000.

The Chicago incident was serious enough to warrant special treatment. Within two weeks of the "outage", the FAA pledged to hire 50 staff and install interim replacement hardware and software by early 1997.

Assuming that there are no budget or planning delays, a permanent replacement is promised for 1998, by which time the 9020E should be consigned to a museum. It is to be hoped that the technology will not be obsolete by the time it is installed. Meantime, air travellers into, out of and around the US can expect to endure further delays.

Severe cold hits US

Brutal arctic weather swept across most of north America at the weekend, with record low temperatures recorded in many places. A cold-weather emergency was declared in Chicago. US television stations cautioned against such problems as "eyelash freeze" and warned that the cold could freeze jewellery to flesh.

New York was expecting moderate snowfall. "Relative to three weeks ago, this is a basically normal February snowstorm in New York City," a city spokesman said. A coastal storm and light snow in New Jersey caused the temporary closure of Atlantic City's international airport.

● Heavy snow continued to blanket northern Japan at the weekend, with sub-freezing winds from northern China expected to bring further heavy falls. Some areas became difficult or impossible for trains, planes and cars. Railway officials said many trains in northern and western Japan were delayed, including the Shinkansen bullet trains, and airlines cancelled many domestic flights.

Virgin launch delayed

Virgin Atlantic has put back the launch date of its long awaited service between London and Johannesburg from July to the autumn, writes Kate Bevan. Richard Branson's airline now plans to start the three-times-a-week service from Heathrow on October 2 using an Airbus A340. "It's purely because we want to start the service at a strong time for both the business and leisure market," Virgin said. The delivery of new aircraft means the Johannesburg service will be increased to six flights a week early next year. Virgin also plans to launch a daily service between London Heathrow and Washington DC in June.

ANA to expand routes

Japan's All Nippon Airways plans to increase international and domestic operations in the year from April 1. With government approval, the airline plans to operate routes connecting Osaka to destinations that will include Frankfurt, Milan, Vienna, Rangoon and Honolulu.

● Australia's International Air Services Commission has issued a preliminary ruling which, if confirmed, would allow Qantas Airways two further services per week between Australia and Indonesia, one of Australia's most important aviation markets. The ruling is subject to public comment before a final decision is made.

The commission will also permit Ansett Airways to defer the start of air services to South Korea until July. Ansett intends to operate two services a week between Australia and South Korea.

Pilots' close encounter

A British Airways passenger jet encountered an unidentified flying object in an incident last year that has left aviation experts baffled. The fast-travelling, wedge-shaped UFO was spotted by Captain Roger Wills and co-pilot Mark Stewart as their Boeing 737 approached Manchester airport.

The pilots filed a formal near-miss report, and Capt Wills was certain it was a solid object and not a bird, balloon or kite. An official report was at a loss to explain the incident, saying visibility was good and that air traffic controllers had seen nothing on radar.

Vietnam bank move

Produce a credit card or cheque book in almost any store in Hanoi and you are likely to walk out empty-handed. Better to offer a giant bundle of notes in the local currency – dong – or, better, US dollars.

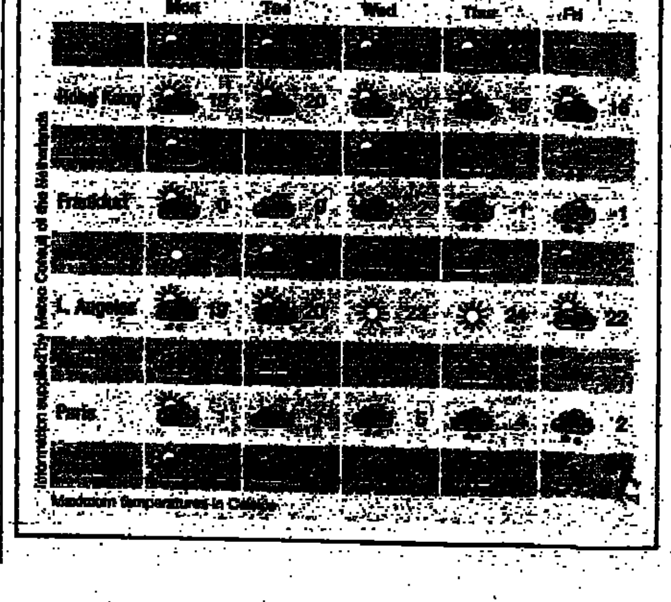
However, Vietcombank, one of four big state-run commercial banks created out of the State Bank of Vietnam in 1990, has emerged as leader in the race to transform the country's cash-based society. It plans to issue Mastercard and Visa credit cards in addition to its local-currency Vietcombank cards.

Russian crackdown

Mayor Yuri Luzhkov of Moscow last week launched a crackdown on foreign-language signs with plans to give priority to those in Russian, according to the newspaper Commersant Daily.

Many shop signs and billboards are already in both the Latin alphabet and the Russian Cyrillic script.

Likely weather in the leading business centres



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MEDIA FUTURES

Tim Jackson

Virtual corporation with a twist

Ask most business people what the phrase "virtual corporation" means, and the chances are they will stare at you blankly. No wonder. The notion was popularised by two Silicon Valley gurus in a 1992 book that was memorably dismissed by Kirkus, a publishing industry reviewer, as "speculative nonsense, albeit of the slick, state-of-the-art sort for which there is an indisputably durable demand".

The minority of business people who think they know would probably tell you that a virtual corporation is one that has no employees: a business that consists of an answering service, a Web site and an e-mail address, all of which act as a front for a group of moonlighting consultants whose daytime employers have no idea what they are up to.

But a Californian company called First Virtual Corporation has given the idea a twist. It was founded in October 1993 by Ralph Ungermann, a Silicon Valley veteran who very nearly controlled the world's microprocessor market with a chip called the Zilog Z80, and who later made hundreds of millions of dollars from a computer networking venture. With such a record, $2m in seed capital for FVC was not a problem.

Ungermann's new venture is once again in the networking field, but this time his focus is multimedia – delivering moving pictures and sound across computer networks instead of telephone lines. First Virtual specialises in a technology known as ATM, or asynchronous transfer mode, which can handle the huge volume of data required to deliver moving images to a PC screen.

First Virtual has 30 to 40 products, 80 per cent of which are pieces of intelligent hardware that turn a traditional local-area network into a multimedia network. The company promises extremely high quality video-conferencing for a starting price of $15,000 to $30,000. Its natural competitors are ATM networking hardware specialists, but Ungermann claims that the software business he has developed makes its offering unique.

However, what makes FVC unusual is more what it does not do than what it does. Its 35 staff include no manufacturing people, no finance staff, no personnel department, no PR, no in-house lawyers and no overseas staff.

Ungermann's view is that FVC has two core competences: developing innovative engineering solutions, and signing deals with powerful marketing partners around the world. "Those are the things that we can do better than anyone else in the world," he says. "Everything else, I'd rather leave to someone else."

What does this mean in practice? The building of FVC equipment, for instance, is carried out by Tannon, a local turn-key manufacturing specialist, which takes products all the way from specification and drawings to the customer's door. The contract allows the manufacturer to make reasonable profits, but provides for it to cut its prices to FVC, Japanese-style, by 10-15 per cent a quarter.

Finance is handled by a chief financial officer who recently ran a $1bn business for General Electric. He has no staff. When invoices come in, they are mailed to an outside company, which pays the bills and produces financial statements within four days of the month's end. Decisions about the company's short-term cash are made by its bankers, who keep spare money in commercial paper.

At first sight, it costs more to contract out these and other services than to perform them in-house. But in very small companies, there is rarely enough money for specialists, which means that accounting, payroll, human resources and other support functions are often carried out, badly, by someone whose primary responsibility is something else. Doing them well is cheaper in the long run.

Despite his radical approach, Ungermann does not believe in teleworking. None of his staff is a moonlighter. They turn up daily at an office in Santa Clara, conveniently near the heart of Silicon Valley but costing only $1 per square foot per month, where they sit in the same room, without so much as a cubicle to divide them.

That way, Ungermann insists, there are few misunderstandings and fewer demarcations. Not even his own business card includes a job title. It is early days to ask for results, but things look promising. FVC sells through Bay Networks, the world's second biggest networking company, and has a deal with PictureTel, one of the leading video-conferencing technology makers. AT&T is both a marketing ally and an investor.

In Japan, the company's partners include NTT, the phone giant, and Kanematsu, an industrial group that makes everything from noodles to rockets. In Sweden, it has teamed with Telia; and a First Virtual of the UK has been spun out of BT.

Sales in the current quarter are expected to be $3m, and operating profits are promised for the next quarter. The company offers two interesting lessons. One concerns out-sourcing – traditionally regarded as a big company activity. Yet the need for competent support functions is probably most urgent, and the supply of managerial talent most scarce, at the birth of companies rather than in their middle or old age.

The other lesson is that the existence of a company like FVC depends on an infrastructure of fast-moving, flexible support businesses that have enough vision not to shy away from start-ups. In this part of California, there are smart offices into which one can move at a day's notice, with receptionists to answer the phone in your name.

Printers can design and deliver four-colour brochures over a weekend. Venture capitalists scour the land in search of entrepreneurs, instead of waiting for ideas to drop through their letterboxes. High-tech commercial lawyers communicate with their clients by e-mail, and take their fees in equity, not cash. Can any other part of the US, let alone any other country, boast the same?

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Digital discs excite a moribund market

Will consumers buy the electronics industry's latest disc technology? Alice Rawsthorn reports

When the world's consumer electronics companies converge on Tokyo for the annual electronics exhibition next September, the focus of their attention is bound to be the first generation of digital video disc systems.

Industry optimists hope that digital discs will provide the same stimulus to the moribund consumer electronics market as video cassettes and compact discs in the 1980s. They are now finalising launch plans for the new discs, which can play films and music, and store computer data.

However, some sectors of the industry are sceptical about the discs' potential. One concern is the absence of a recording facility in the first entertainment systems. There are also worries about the technical problems that must be resolved before the launch and the pricing of the first products.

BZW Securities in Tokyo forecasts that digital video disc hardware and software sales could rise from Y155bn (£960.7m) in 1996 to Y2,025bn by 2000. But some manufacturers, such as Philips of the Netherlands, suspect initial sales may be slower: "We do see the digital video disc as an important new product," said a Philips executive. "But it isn't the holy grail."

Philips does not plan to launch its first disc system – for data storage – until early next year and will not introduce an entertainment version until the discs are recordable. But many of its rivals are pressing ahead with plans for aggressive autumn launches.

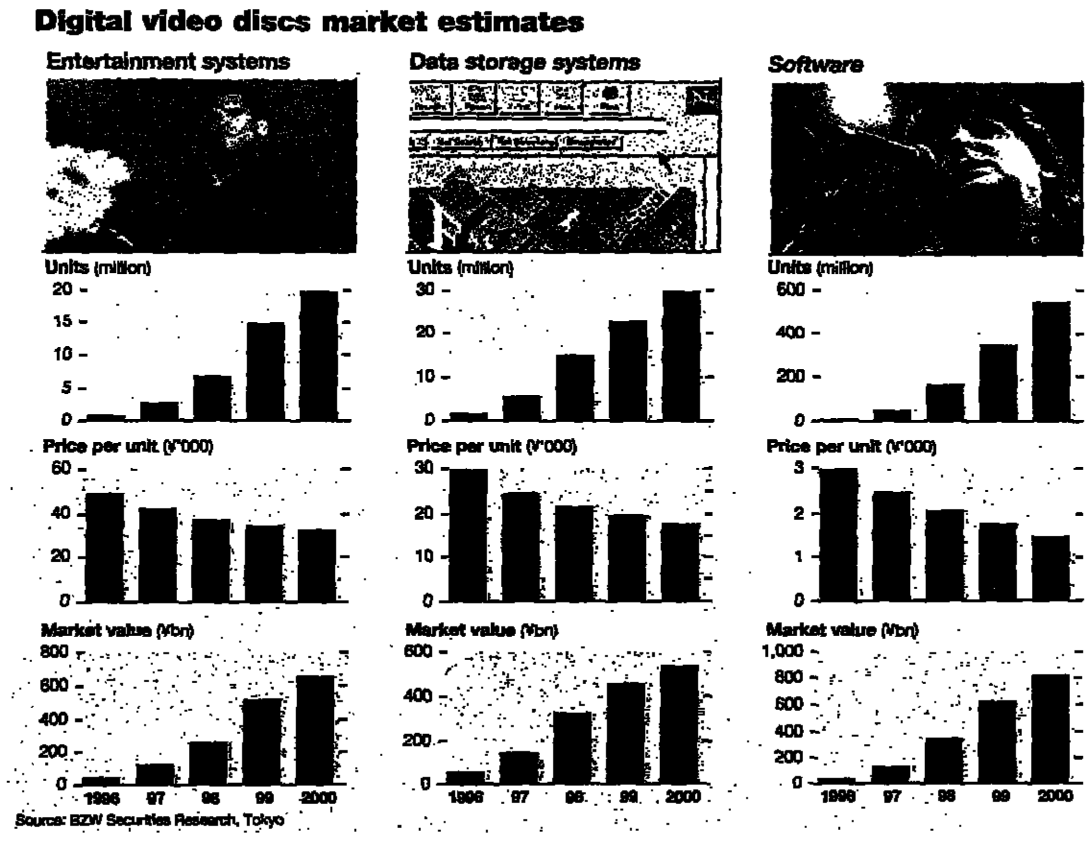
The first entertainment systems from Matsushita and Toshiba of Japan and France's Thomson are expected to go on sale to consumers by September. Japan's Sony, which, like Philips, initially backed a different technological format, has yet to finalise its schedule but plans to keep pace with the rest of the industry.

All these companies are anxious to find an exciting new product at a time when the television market is depressed and once dynamic sectors, such as VCRs and audio-CDs, are approaching maturity. But even the most enthusiastic of them accept that the logistics of launching the new systems will be complicated by the turbulent state of the electronics market.

"In the good old days we'd launch a new product at around $1,000 and keep it at that price for two or three years until we'd amortised our research costs," said a Sony executive. "We can't do that now. Consumers won't accept it. You've got to start off with much lower prices."

The crux of the industry's problems is that it now faces fierce competition from the personal computing business, which has usurped electronics as a leading-edge sector in the eyes of many consumers. "It's cruel, but true," said one analyst. "Compared with computers, people don't think electronics are very sexy any more."

Digital video discs market estimates



Source: BZW Securities Research, Tokyo

This means that the first generation of a new electronic product must be priced as cheaply as possibly for sales to take off. Sony successfully deployed such a strategy for the PlayStation, the video games system it launched worldwide over the past year. The hardware was deliberately priced cheaply to create a large user base to which Sony could then sell its highly profitable PlayStation software.

But the industry does not have the same flexibility to offset low (or minimal) margins on digital video disc hardware with profits from software. Sony is in a protected position with the PlayStation because it controls the supply of software for its games system, but its film and music subsidiaries will have to compete against their rivals in the digital video disc software market. Most other electronics manufacturers are worse off: they do not have any entertainment software interests.

Morever, although the industry has agreed a standard format for the new discs, there are still a number of technological issues to be settled before full-scale production starts. This, coupled with the fact that many Japanese companies are hoping that the yen continues to weaken against the US dollar before the autumn, makes it difficult for companies to fix final prices.

Some manufacturers have done so regardless. Thomson has announced that its first entertainment systems will go on sale in north America by September at $499 each. Matsushita has not finalised its pricing or timing plans, but its strategy is likely to be similar to Thomson's, given that it is supplying the French company.

However, Toshiba, which took a leading role in developing the new disc technology, believes that the lowest possible price for its first system, which will be launched in Japan and north America in September, will be $599. A second system will go on sale at the same time for $699. Sony and Philips are also aiming for $500 as an ideal minimum price, but both accept it may be higher.

The critical question is whether digital video discs will be exciting enough to make people want to buy them. The industry is confident of making inroads into the computing market, as the data storage capacity of the new discs is up to 10 times higher than that of existing formats.

But opinion is divided on the entertainment front between those who believe consumers will buy the new discs for their superior sound and image quality, and those who are concerned about the lack of recordability. "What have you got if it doesn't record?" said one executive. "A 5-inch laser disc – and look what happened to that. It flopped."

Cinema with 'thinkie' appeal

Victoria Griffith on the latest in interactive films, designed to encourage multiple perspectives

Those attending the recent Rotterdam film festival were offered a possible glimpse of the future with the premiere of the interactive movie *Lurker*. The brainchild of Glorianna Davenport, a film-maker at the Massachusetts Institute of Technology's Media Lab, *Lurker* is billed as a new type of interactive film – a "thinkie" – that encourages audiences to think about the experience.

Over the course of two days, 30 viewers at the festival assumed different computer identities and participated in the hunt for an abducted female computer hacker known as Shira.

"Don't tell anyone, but she's being held in the laboratory," said Davenport. "The ending's the same, no matter how the story plays out." In fact, a fixed ending is what distinguishes Davenport's work from that of others in the fledgling field of interactive cinema.

"Most people look at interactive film as a way for the audience to influence the plot," Davenport says. "But I see it as something more subtle than that."

Interactive films have so far met with little commercial success. Last year, Sony distributed the film *Run For Your Life* into movie houses around the US. *Run For Your Life* invited audiences to vote on which direction the action should take, and Sony equipped cinema seats with computer-operated buttons. If most viewers pressed one colour, aliens took over the planet; if most opted for another, the earth was saved.

Despite the novelty, and heavy initial promotion by Sony, the movie folded after a few lacklustre weeks. The reason, theorises Davenport, is that people find it difficult to believe in plots they control.

"Humans are fatalistic," she says. "They don't like stories with multiple endings. Would you cry at the end of *Gone With The Wind* if you could reunite Scarlet with Rhett at the flick of a button?"

Davenport believes that multiple-choice plots rob film-makers of the ability to manipulate audience emotions, turning cinema into an empty experience. "Good stories usually have a moralistic point to make," she says. "If the bad guy gets killed, there's a message there. If the bad guy survives, the entire story takes on a different, more cynical meaning. Few story tellers would like to see their work changed around like that."

Rather than offering multiple plot lines, Davenport believes the future of interactive cinema lies in allowing audiences to see events from different perspectives. "Two people can see a traditional film and have completely different feelings about the characters. Interactive cinema can take that a step further."

One Media Lab film project called *Two Viewpoints* invites audiences to do just that. It is a short film. The character John arrives home from work to find his author wife Kathy labouring over a novel set in the 19th century.

The house is a mess, and John complains. In one version of the movie, the characters are shown in modern dress, with John's voice ringing loud and clear. In another version the audience sees something else – Kathy's 19th century character Katherine in the room with the troubled couple.

In this version, John's voice seems distorted and distant. That is how Kathy, who does not pay much attention to the "real world" around her, might view the scene. In both versions, plot and dialogue are identical, and John comes off as an overbearing husband. Yet the the two versions feel substantially different.

Another reason for keeping control of the plot in the film-maker's hands, says Davenport, is that viewers desire differing amounts of interactivity. "Some people might want to interact all the time. Others want to let the story wash over them. A film that is constantly demanding some response will alienate the second type of viewer."

Despite advances in recent years, Davenport believes interactive cinema must overcome tremendous technological barriers before it can achieve mass appeal. She dreams of using a film computer that would react to viewers' most subtle responses, including pulse rates and eye movements, as well as laughter and tears.

"In a way it would be like going back to the days of live theatre, only in a more sophisticated way. In a theatre, actors interact with the audience. They wait for the laughs to almost subside before moving on to the next line, so the timing and emphasis is affected."

It might be sensed, for example, that viewers' eyes were dwelling on a certain actor, so the computer would react by switching to that character's point of view. But such subtlety would be extremely costly.

Davenport says that to tap the full potential of interactive film would require an entrepreneur with a lot of money. "Right now, we're just experimenting on the edge."

Cyber sightings

● Simex, the Singapore International Monetary Exchange, has set up a site (*www.simex.com.sg*) through the AsiaOne gateway, controlled by Singapore Press Holdings. It is well designed, with plenty of interesting information – check out how the price of a Simex seat has risen over the past decade.

● Bank Web (*www.bankweb.com*) is, would you believe, a directory of all the banks worldwide that have Web sites. US banks are arranged by state; international banks by geographical area, then alphabetically within that. You can also use a locator to tell you how to find your nearest Visa or Mastercard ATM in selected cities.

Easy to use, but if you know which institution you're after, why not just use the Net Search facility?

● For luvvies everywhere, Britain's acting accolades, the Bafta awards site sponsored by Lloyds Bank (*www.bafta.org*), is simply a must, dahling! Even the plebs get a chance to cast their vote in the people's awards poll between now and March 29. You might even win a trip to the glitzy ceremony. The site will be updated with news of award nominees and information about film and television in the UK.

● The American Civil Liberties Union's 'Freedom Network' (*www.aclu.org*) is a well-organised resource for getting information on what's happening in telecommunications law as it affects the Internet, and also in the broader spectrum of civil liberties activity. Nice graphics. Well worth a look.

● Global Access Telecommunications Services, a provider of worldwide satellite transmission services for the TV and video industry, has put up a marketing site detailing its satellite services in six global areas. The company's press releases are also available in the 'What's Happening' section.

● In a similar vein, WorldSpace Corporation, a US company involved in pioneering digital audio broadcast research, has information about the company at *www.worldspace.com* The green and grey backgrounds make it a bit of a strain to read though.

● Hewlett-Packard has set up a financial service site (*www.hp.com/go/fsi*), although there are a lot of intermediate screens, disclaimers, search engines and the like.

● In the running for the dubious title of Sir Teddy Taylor's favourite site . . . David Delaney's *Eurofollies* (*www.kc3ltd.co.uk/profile/eurofollie*) is a compendium of what he calls "nuisance legislation" dreamt up by the European Commission.

● Dogs of the Dow (*http://home.earthlink.net/~vp/index.html*) is an investment newsletter and stock-picking system which allows you to obtain background research as well as daily quotes for any of the Dow companies. Worth a visit if you take a pro-active interest in your portfolio.

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Financial Times on the World Wide Web
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THIS WEEK

Vive la musique Française!

DATELINE

Paris: All music radio stations in France now have to comply with a requirement that 40 per cent of the songs they play are French, reports Andrew Jack

For a country with centuries of experience in protecting its language and intercepting communications between citizens, France has taken a long time to apply the two policies to radio broadcasting. But when it finally did so this year, it was with full force.

The Villiers-Cotterêts edict on the compulsory use of the French language dates from 1539. At least since then the state has actively spyed on its subjects – one reason for the popularity of cryptography in the 17th century, to help keep the contents of letters secret.

The tradition of interference has continued to the present day, if there is only a fraction of truth in the allegations of widespread and often unauthorised use of telephone tapping by France's intelligence services.

This might seem a little unjustly critical of the French state, but it is nothing compared to the invective coming from a number of the country's radio stations in the last few weeks, triggered by the dreaded Pelchat amendment. From January 1 1996, all music radio stations have had to comply with a requirement that 40 per cent of the songs they play are French, and that half of them are newly released.

For some, the new quotas provide no serious problems. Radio Bleue, for example, aims at an older, blue-rinsed group of listeners, and since its creation in 1970 has been a dedicated broadcaster of French music. In Radio Nostalgie's case, 70 per cent of its output meets the criteria.

For a few others, the requirement is a reasonable imposition. Radio France, a station funded by the state, already has an obligation that at least half of its services are broadcast in French.

The real difficulty comes for private sector broadcasters which have rather more specialised offerings, notably those aimed at younger audiences. The ones most affected – and hence the most outspoken – include NRJ ("energy" when pronounced in the French way), Fun, Skyrock and Oui FM.

On paper, the idea of quotas to help preserve cultural diversity has some appeal. For a country proud of its language and traditions, and increasingly threatened by the influence of *les Anglo-Saxons* in every domain, it is understandable the law be used to ensure better exposure of home-grown talent to a domestic market.

If only the motives were so pure. Behind the grandstanding is a powerful lobby: the music production industry. It argues that quotas are the only way to support and nurture domestic talent. It says that the market is strongly influenced by what is broadcast: what people hear, they then go out and buy. And it complains that previous voluntary agreements stating that 25 per cent of songs broadcast should be French were never honoured by the radio stations.

Yet the producers are not doing so badly. Sales of French music are already relatively high – for example, half of PolyGram's sales in France are of French songs.

Furthermore, during 1994, four of the top 10 songs generating the highest royalties were French.

The dissenting broadcasters argue that quotas run counter to freedom of expression. They say that their role is to provide what their listeners want to hear and there is simply not enough French domestic talent to meet the requirements of the quotas – particularly for the specialist stations playing rock or rap, for instance.

You cannot magically generate high quality domestic talent simply by giving it a certain amount of air time, say the radio stations, who fear that listeners will switch off their radios or tune in elsewhere on the airwaves for broadcasters abroad which are unencumbered by such regulations.

The quotas have had some perverse effects. Khaled and Youssou N'Dour, two extremely popular singers, are not included as part of the French singing quota because, despite being dubbed "francophone", they normally do not sing in French. One is Arab, the other African.

The broadcasters and their allies have appealed to Brussels, claiming that the law is anti-competitive, and have proposed a series of modifications to make the regulations more flexible.

In the meantime, the French have developed ways of getting around the quotas. Oui FM has decided to play its total weekly quota of French output on a Sunday, when the smallest number of people listen.

Fun Radio has boosted the number of hours it dedicates to call-in shows. It wants to challenge its definition as a music station, thereby reducing the amount of time it must dedicate to playing songs.

FG 98.2, which specialises in techno and house music, has decided to play fewer songs with words, preferring music using human sounds.

The battle against the quota legislation may have been lost, but victory for the legislators could prove a little more difficult to claim.

After all, NRJ has reluctantly launched a competition to find new French talent, meeting its obligations to reduce Anglo-Saxon influence. It is called Le Coca Cola Play List.

FT GUIDE TO ACCOUNTANCY

Writer John Braine said that accountancy was a "sensible yet glamorous occupation". Most people think it is just plain dull. So what is the current excitement about?
KPMG, one of the so-called Big Six accountancy firms which dominate the global market, has broken more than a century of secrecy by publishing its UK report and accounts. For accountants this is pretty daring stuff. Partnerships do not have to publish financial data. They normally just say how much they have earned in fees. Until now we had little idea how profitable their businesses were. The accounts caused a bit of a rumpus, not because accounts are interesting but because they told us for the first time what partners earn.

Was it daft to publish them?
They didn't have a great deal of choice. They are turning part of their business into a limited company to ring-fence partners' personal assets from the threat of litigation over negligence. Many of the figures would have come out anyway.

So how much did they earn?
Each partner earned on average £125,000, but that rose to an average £180,000 with pension and a share of the profits. However, the real story is a bit different. KPMG is a pyramid. The senior partner gets £740,000. More than 50 partners earned more than £200,000, without pension and profit added on.

How profitable was the business?
Well, KPMG returned 3 per cent of its gross fees to partners as profit: about £18m. This caused few surprises among the rest of the Big Six. Most thought it a bit low, but the market has been a tough one for several years with plenty of over-capacity in the audit sector. Tactically, others wondered if KPMG had been smart in choosing a poor year to show results – there might be an outcry when profits rise.

Why are the Big Six unsettled?
A lot of the change going on in accountancy is driven by the problem of legal liability. The UK profession is convinced it is about to fall foul of "the rush to the courthouse" – the wave of litigation which has driven the US profession to lobby furiously for relief. Under the doctrine of joint and several liability, the US auditors often found themselves having to meet the whole of a claim for damages even when they were only partly to blame.

Litigants often went after the auditors as they were seen to be backed up by big firms with insurance cover. Legal actions cost so much money that many litigants just filed a suit to try and get paid to go away. The auditors were almost always the target; they were seen as having the deepest pockets.

Did the US government let them stew?
No. US accountancy firms have been able to protect themselves by registering under a new law as limited liability partnerships in Delaware. Also, just before Christmas, a new federal law was passed which introduced the notion of "proportional damages", so that if an auditor was not negligent to a great degree it would not have to pick up the whole bill any more. There is some doubt about whether this law will really help, but judging by the jubilation in the US after it was passed, accountants themselves are convinced it will.

What will the UK government do?
Under UK law, limited liability partnerships do not really work. Legal reform on the scale seen in the US would take years. The government is about to publish a paper on the issue by the Law Commission, but is keen to balance any concessions to auditors by safeguarding the interests of the victims of negligence.

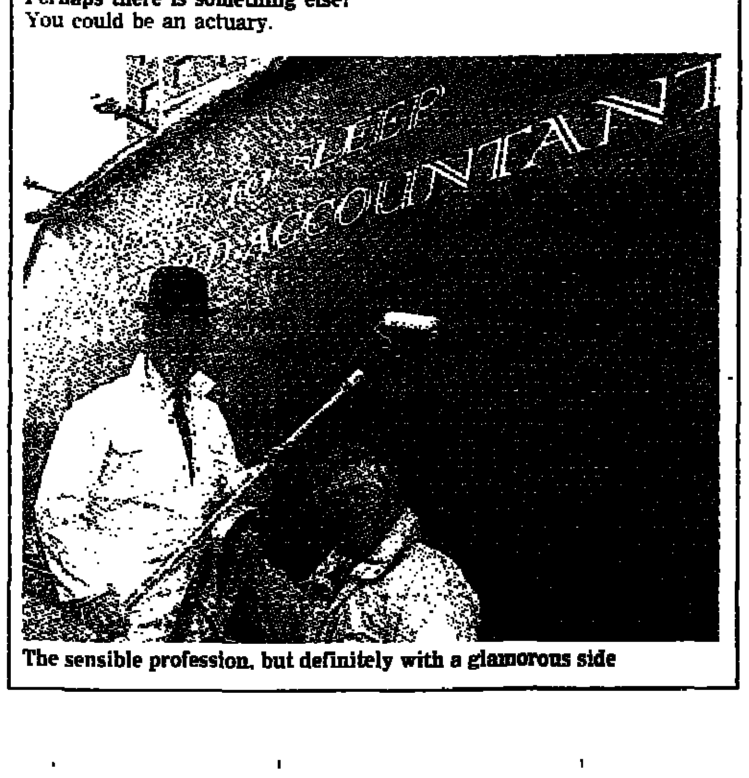
So all the Big Six will have to become companies, and publish accounts, so we'll know how much they all earn?
Wrong. Jersey's government has offered to write a law allowing the Big Six to register off-shore as limited liability partnerships. Most of them will take this option rather than "incorporate". Then they won't have to publish their results.

When they are all off-shore, or incorporated, will accountancy be a *really* highly paid profession with no risks?
Not quite. These remedies do not remove the fundamental danger – the big risk which overshadows all the partners of the big firms. Registering off-shore, or incorporating, limits liability *within* the firm. The firm itself is still joint and severally liable *at law*. If a partner made a relatively small mistake many years ago which contributed to a corporate collapse, then all the partners could still end up losing their jobs, as well as the capital they have invested in the firm. It would take fundamental legal reform to solve this problem.

So nobody in their right minds would become an accountant?
You couldn't be more wrong. The rewards in accountancy are substantial. Partners are owner-managers, so they have a lot of independence. The Big Six firms are not like large corporations. Partners have a say. Big decisions can go to votes. And the firms are going global, so there are many opportunities to travel and live it up. The firms are also expanding into IT, corporate finance, and other more exciting business sectors.

Hmmmm. I might just get hold of that annual report and see if accountancy is for me.
I wouldn't recommend it. As great reads go it rivals *Financial Reporting Standard 2* on subsidiary undertakings. Also, the Big Six firms recruit at the top end of the graduate market. The professional exams are said to be fiendishly difficult. And you would have to work very hard for a decade or so before you became a partner.

Perhaps there is something else?
You could be an actuary.


The sensible profession, but definitely with a glamorous side

PEOPLE

McCarthy called across the Pacific

Gerard Baker meets the man central to BZW's investment banking strategy

After three years heading the Japanese operations for the Barclays group, Callum McCarthy has become north America chief executive for the UK bank's investment banking arm, BZW.

He has done so at a time of dizzying change for many European investment banks as they confront the stiffening challenge of US rivals.

The US market has been a difficult one for the Barclays group over the past few years. Indeed, McCarthy's move from Tokyo to New York is confirmation of the group's continued strategic refocusing of its international activities on investment banking.

McCarthy, 51, arrived in Tokyo in 1993. He has witnessed at first hand a period of volatility of almost unprecedented intensity – a continuing stock market slump; five changes of government; the Kobe earthquake; and, throughout, the most serious financial crisis in Japan's history.

A former civil servant at the UK's Department of Trade and Industry, he joined BZW in 1989 after four years at Kleinwort Benson in London. He spent the next four years as deputy chief executive of BZW's corporate finance division in London and has been on BZW's management committee since 1994.

McCarthy's move to New York coincides with a radical restructuring in BZW's US operations. Barclays in north America has been refocusing activities around BZW, retreating from its commercial and retail banking operations. Several businesses have closed or been sold, and last year BZW bought Wells Fargo Nikko Investment Advisors, a former US-Japanese fund management joint venture. The purchase made BZW the world's largest passive fund manager, with more than $250bn under management.

The restructuring of Barclays US operations has been mirrored in Tokyo.

In Japan, almost all Barclays operations fall within the BZW division. McCarthy was involved in finalising the Wells Fargo Nikko acquisition and made important changes to the scope of the bank's activities.

Unlike some of its international rivals, Barclays has radically scaled back its Japanese commercial lending. McCarthy says the group asked itself what it could do in terms of straight commercial lending that a big Japanese bank could not. "The answer," McCarthy says, "was not much, so we decided to focus on those areas to which we brought real, particular strengths."

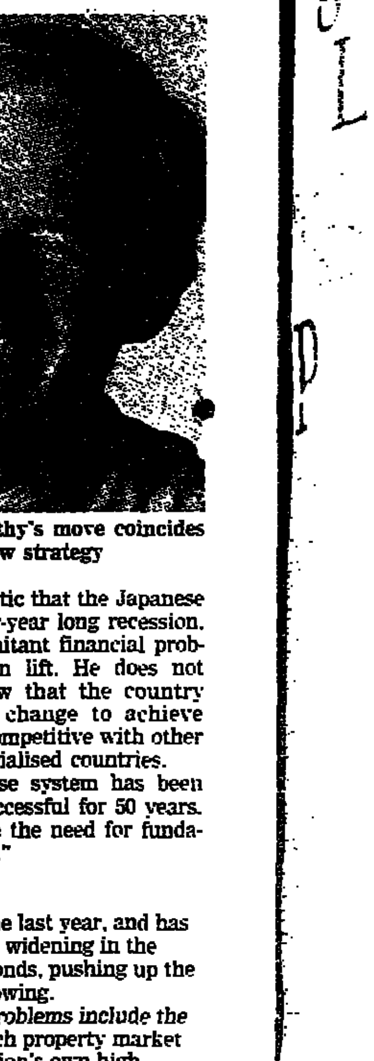
That meant concentrating on investment banking. McCarthy focused on international capital markets, especially Eurosterling issues, risk management and private placements, a significant presence in Japanese equities, foreign exchange and money markets.

Barclays' strategic repositioning has taken place against a troubled backdrop in Japan. The country's financial troubles have dented Tokyo's attractions as an international financial centre. The slow pace of deregulation has led many international companies to look elsewhere in Asia for opportunities in areas such as derivatives – some have even relocated staff and offices out of Japan.

BZW has not followed them, though McCarthy believes faster deregulation is needed to prevent the departure of more foreign institutions. The finance ministry's role especially needs to change, he says – to become less *dirigiste* and more transparent in its supervision.

The Daiwa affair has highlighted the closed nature of much of Japan's financial sector. The bank was expelled from the US by regulators following the belated disclosure of $1.1bn losses at its New York branch last September. This, McCarthy believes, led to the Japanese premium – the extra cost of borrowing funds Japan's banks must pay in international markets.

McCarthy admits, however, that reform is taking place, albeit slowly. In the past three years he has seen a number of sectors open up further to foreign competition, the latest being the asset management market.


Callum McCarthy's move coincides with BZW's new strategy

He is optimistic that the Japanese economy's four-year long recession, and its concomitant financial problems, will soon lift. He does not share the view that the country needs radical change to achieve growth rates competitive with other leading industrialised countries.

"The Japanese system has been remarkably successful for 50 years. Few people see the need for fundamental change."

NAMES IN THE NEWS

Pan Am takes cut-price route back into the skies

Would you fly Pan American World Airways if given the choice? Martin Shugrue thinks the answer is yes.

Once, Pan Am was the flagship of US airlines, but then came losses, the Lockerbie disaster, and finally, in 1991, bankruptcy and collapse, writes Richard Tomkins in New York.

Hardly a recipe for exploiting goodwill but Shugrue thinks otherwise. Last week found him trumpeting his plans for re-launching the airline as a cut-price operator, using its "immediate and favourable" name recognition. "Pan Am is the best, most well-known name in the history of commercial aviation, not only in the US but in the world," he asserted.

Whatever the claim's merits, Shugrue, 54, is probably somewhat biased. He spent 20 years with the old Pan Am, starting as a pilot and finishing as executive vice-chairman. He eventually lost his job in 1988 when the unions demanded his head as the price for negotiating labour concessions.

After a spell as president of Continental Airlines, where he clashed with owner Frank Lorenzo, Shugrue served as court-appointed trustee of the bankrupt Eastern Air Lines. He shut it down after a few months, tried to get it flying again, gave up, and collected $4m in fees.

Now, he is investing some of his nest egg in plans to resurrect Pan Am as a domestic carrier. Shugrue believes the airline will succeed because its low costs will enable it to offer bargain basement fares – which sound a safer bet than relying on the name.

Succession and the banana family

When is Neil McCann, chairman of Fyffes, the Dublin-based fruit trader and Europe's largest banana trader, going to retire? It is a question which is hanging over the company's share price, writes John Murray Brown.

It is a decade since Neil McCann's Fruit Importers of Ireland bought Fyffes from Carl Lindner's United Brands for £30m. Since then its turnover has risen 15 times and six weeks ago it did its biggest deal to date – the £147m acquisition of Geest's banana division in partnership with the Windward Islands.

However, the group's market capitalisation of just over £300m has failed to reflect its impressive growth.

Three years ago it turned down a £400m-plus bid from Dole Food, one of the biggest companies in the banana business, and its shares have substantially under-performed the Irish market over the last year. The stock market fears Fyffes may have difficulty digesting its latest acquisition, because there is a banana price war and Neil McCann is preparing to bow out.

Fyffes' efforts to bring in professional management from outside have not been a great success, and the company's future hangs on the skills of the next generation of the McCann family. Last November, David McCann, 37, a solicitor, took over from his father as chief executive. He runs the business while elder brother Carl, 42, is the deal-maker and is expected to take over as chairman, though timing remains unclear.

During the Geest takeover, the 70-year-old Neil McCann played a leading role. Is this the action of a man about to step aside?

French 'governor' faces rough ride

Jérôme Meyssonnier, head of Banque La Hénin, part of the Suez group, faces a rough ride as he takes up the reins of Crédit Foncier de France, the specialist property institution, writes Andrew Jack in Paris.

He becomes "governor" of an organisation which is entirely in the private sector and owned by stock market investors. Yet because Foncier is a specialist financial institution under French law, Meyssonnier's appointment is determined by the government.

He takes charge of a group which has seen its share price fall by two-thirds in the last year, and has suffered a huge widening in the spread on its bonds, pushing up the cost of its borrowing.

Underlying problems include the depressed French property market and the institution's own high costs. Added to that, Meyssonnier, 55, joins as four external directors have gone, or are poised to depart.

Jean-Claude Colli, the existing governor, has refused to resign, and the unilateral decision by the government to replace him helped trigger one resignation and the threat of another. Also, the chairmen of Assurances Générales de France and of Union des Assurances de Paris have recently left.

Nevertheless, unlike some previous appointments by the French government to bodies over which it has influence, Meyssonnier has considerable relevant experience. He spent a lifetime working within the La Hénin group, and has masterminded the restructuring of its own troubled property portfolio.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on 04.02.96: Pool purchase price £/MWh	Final Prices for Trading on 07.01.96: Pool purchase price £/MWh	Pool selling price £/MWh
0030	9.16	8.94	8.94
0100	31.26	14.28	15.63
0130	47.77	16.22	17.57
0200	47.77	16.22	17.57
0230	47.77	16.22	17.57
0300	32.18	16.22	17.57
0330	14.83	16.22	17.57
0400	14.83	12.73	14.08
0430	13.47	8.95	8.95
0500	12.68	8.94	8.94
0530	27.54	8.91	8.91
0600	27.54	8.90	8.90
0630	25.32	8.90	8.90
0700	25.32	8.90	8.90
0730	27.54	8.91	8.91
0800	27.54	8.91	8.91
0830	27.54	8.90	8.90
0900	27.54	8.91	8.91
0930	27.54	8.91	8.91
1000	27.54	8.94	8.94
1030	27.54	11.22	12.58
1100	27.54	11.22	12.58
1130	27.54	14.24	15.60
1200	27.54	18.77	20.12
1230	27.54	19.00	20.35
1300	27.54	19.00	20.35
1330	27.54	18.77	20.12
1400	27.54	14.24	15.60
1430	13.04	9.02	9.02
1500	13.04	8.97	8.97
1530	13.04	8.95	8.95
1600	13.04	8.94	8.94
1630	9.12	9.03	9.03
1700	9.13	25.86	27.22
1730	28.22	37.71	39.07
1800	46.23	37.71	39.07
1830	46.24	26.03	27.38
1900	46.23	25.86	27.22
1930	46.23	25.86	27.22
2000	29.63	18.32	19.68
2030	28.22	14.60	15.95
2100	28.22	14.24	15.60
2130	28.23	13.97	15.32
2200	13.57	12.78	14.14
2230	13.24	8.95	10.30
2300	9.12	8.95	10.30
2330	9.11	8.95	10.30
2400	9.06	8.94	8.94

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £16.86/MWh becomes 1.686p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0115 945 6789 between 8.30am and 5.15pm Monday to Friday.
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Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on 05.02.96: Pool purchase price £/MWh	Final Prices for Trading on 08.01.96: Pool purchase price £/MWh	Pool selling price £/MWh
0030	9.12	8.94	8.94
0100	13.24	10.10	11.82
0130	21.85	22.00	23.72
0200	21.85	22.00	23.72
0230	21.85	10.10	11.82
0300	39.85	10.10	11.82
0330	21.85	10.10	11.82
0400	15.12	8.96	8.96
0430	13.04	8.94	8.94
0500	9.12	8.94	8.94
0530	9.12	8.94	8.94
0600	9.11	8.92	8.92
0630	12.42	8.94	8.94
0700	33.90	23.77	25.49
0730	35.45	26.46	28.18
0800	44.97	26.49	28.22
0830	47.81	27.27	29.02
0900	49.91	27.34	29.11
0930	56.31	27.43	29.23
1000	56.09	27.54	29.36
1030	54.11	33.36	35.21
1100	48.27	33.50	35.38
1130	49.23	33.75	35.71
1200	55.50	35.42	37.50
1230	54.00	35.72	37.87
1300	41.34	35.83	38.02
1330	38.26	35.60	37.73
1400	37.03	35.44	37.54
1430	36.03	35.22	37.25
1500	24.60	31.12	33.09
1530	13.58	29.45	31.41
1600	16.82	13.38	13.38
1630	39.74	57.33	66.10
1700	131.58	110.59	124.43
1730	223.90	116.04	129.27
1800	249.37	94.59	104.77
1830	196.22	48.39	52.85
1900	123.83	43.14	45.72
1930	72.49	30.46	32.43
2000	45.53	28.87	30.66
2030	36.80	28.68	30.41
2100	33.45	36.49	38.21
2130	33.00	36.48	38.21
2200	32.80	26.45	28.18
2230	32.78	23.77	25.49
2300	32.78	8.99	8.99
2330	9.35	8.95	8.95
2400	9.12	8.95	8.95

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £16.86/MWh becomes 1.686p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0115 945 6789 between 8.30am and 5.15pm Monday to Friday.
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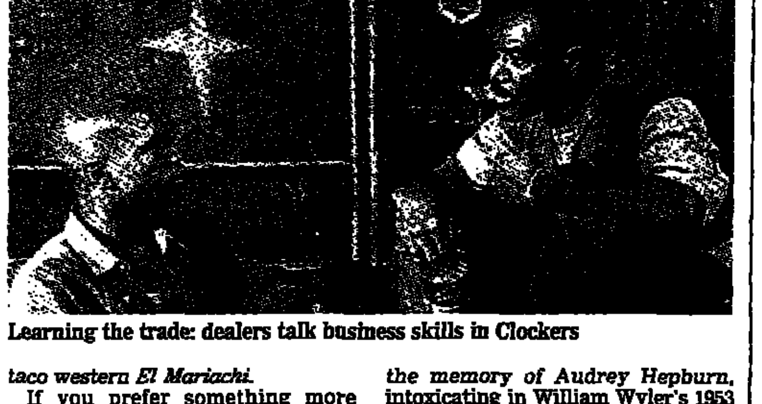
FILM AND VIDEO

Crime, they sometimes say, has no borders. But even if it did, film-makers would crash through them, seeking wickedness wherever it has box-office value. This week's crooks and con-men come from Loch Ness to Mexico, from modern LA to next-century Beijing.

Harvey Keitel's harassed cop fights the tide of corruption in Spike Lee's erratic but powerful *Clockers*, based on Richard Price's best-selling novel about drug-dealing. In *Johnny Mnemonic*, Keanu Reeves sorts out gargoyle-faced baddies across a William Gibson future-world. And Ted Danson survives haggis, sabotage and worse as he tries to prove Nessie's existence in the comedy *Loch Ness*.

In movies like this you need more than tough heroes; you need exuberant supporting casts to throw at them. Count the bodies, if you can without a calculator, in Robert Rodriguez's barnstorming *Desperado*, a sequel to his famous $7,000 taco western *El Mariachi*.


Learning the trade: dealers talk business skills in Clockers

If you prefer something more peaceful, there is Eric Rohmer's crime-free, bullet-free *Rendez-vous in Paris*. Though un-press-shown as I write, it promises the French master's usual mixture of romance, chat and multiple self-revelation.

"Agelessness" sums up the three best videos. *Roman Holiday* revives the memory of Audrey Hepburn, intoxicating in William Wyler's 1953 comedy romance. Zeffirelli's 1968 *Romeo And Juliet* is still as young as its boldly youthful cast. And Disney's lushly animated *Sleeping Beauty* (1959) returns for one of the studio's special brief releases: 100 days, starting now.

Nigel Andrews

MUSIC

Fresh from their triumphant performances in London, the American Emerson String Quartet tackle one of the epic works in the repertoire, Beethoven's B flat major Quartet Op.130 with the *Grosse Fuge* on Deutsche Grammophon. It is a polished, subtle performance of this extraordinarily intense work, twinned intelligently with the gentler D major Quartet Op.18.

There is more splendid Beethoven playing from Pascal Rogé and the London Winds whose deft, elegant rendition of the Piano Quintet in E flat major is combined with Spohr's Septet in A minor on Decca.

The latest conductor to come in for the box set treatment is Nikolaus Harnoncourt, whose 21-CD set on Teldec includes classic recordings of Mozart's *Requiem* and *The Abduction from the Seraglio*, Bach's B minor Mass and early Haydn Symphonies. Three compilations are released this week which say a lot about the current state of recorded music: there is *The Best Album in the World... Ever* (Virgin) which is predictably full of Britpop's brightest; but isn't that title just a little too full of itself?

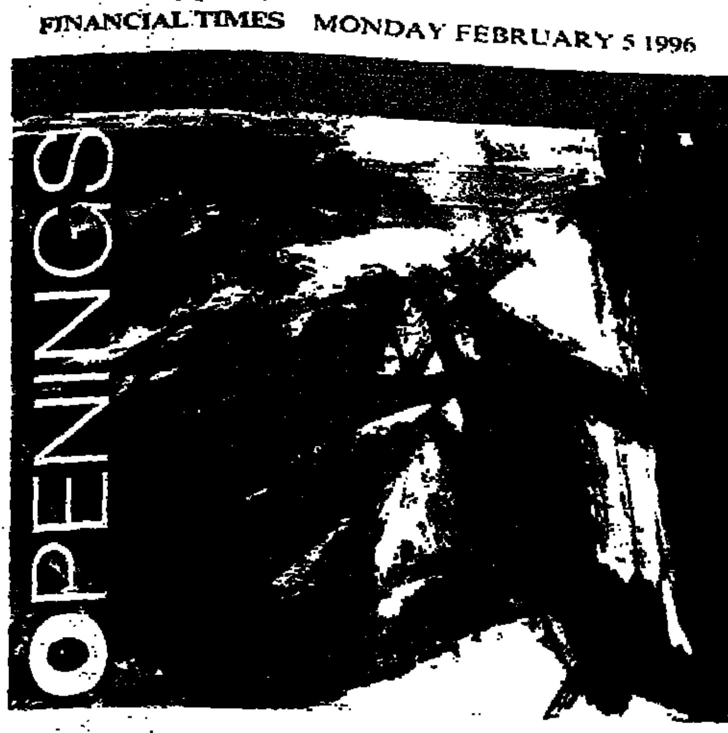
Then there is *Classic Moods* (Decca), a double CD split into "Tranquility, Solitude and Melancholy" and "Dreams, Fantasy and Nostalgic Romance", according to your mood.

These are collections of classical theme tunes and excerpts from film soundtracks, which at least offer some amusing sleeve note opportunities: "Bach: Theme from *Goldberg Variations* (Taken from *Silence of the Lambs*)".

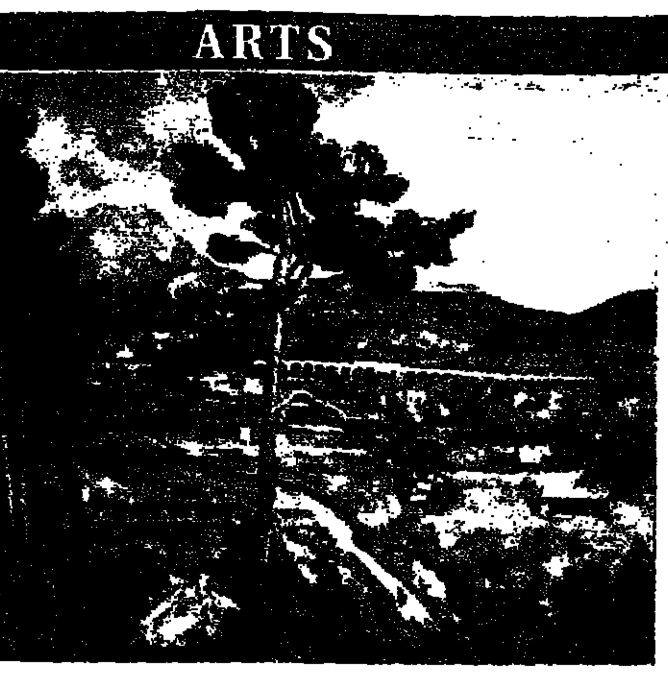
Finally, *The Look of Love: The Classic Songs of Burt Bacharach* (A&M), a blatant attempt to cash in on the dubious craze for easy listening, but containing some wonderful moments from Dusty Springfield, Gene Pitney, Aretha Franklin and others.

Peter Aspden

ARTS



NEW YORK
The Guggenheim Museum is mounting the first major survey of abstract art from the beginning of the century to the present day. It will have whole sections devoted to Kandinsky, Mondrian, Pollock, de Kooning and Franz Kline (left), as well as single works by artists considered essential to the evolution of abstraction, such as Brancusi and Schwitters. The show, which opens on Friday, includes rarely-loaned works from around the world.



LONDON
The spectacular Cezanne exhibition first seen in Paris last autumn comes to the Tate Gallery on Thursday, and promises to be one of the highlights of the London art calendar. The first Cezanne retrospective for many years, it includes 90 of his greatest paintings, plus 70 watercolours and drawings.
English National Opera's new production of Wagner's "Tristan und Isolde", opens at the Coliseum on Saturday conducted by Mark Elder and produced by David Alden. The title-roles will be sung by George Gray and Elizabeth Connell.

BONN
Yuri Lyubimov, director of the Taganka Theatre in Moscow is back in the West to produce Tchaikovsky's "The Queen of Spades" for the Bonn Opera. True to form, Lyubimov is not content with the composer's original: the Bonn performances will be based on a version Lyubimov made with Alfred Schnittke in the 1970s. Tchaikovsky's score is heavily cut and interspersed with spoken texts from Pushkin, with harpsichord accompaniments devised by Schnittke. First night is on Sunday.

BERLIN
A new co-production between Berlin's Deutsche Oper and the Vienna State Opera of the opera "Oedipe" offers scope for re-assessment of its Romanian composer Georges Enescu (1881-1955). Sung in the original French, it is staged by Gotz Friedrich and conducted by Lawrence Foster. The cast is headed by Monte Pederson, and the first night at the Deutsche Oper is on Saturday.

AMSTERDAM
In 1994 the Dutch Office of Fine Arts transferred its handsome collection of 19th century photographs to the Rijksmuseum, which made an inventory of its own photographic archive. Some spectacular finds were made. A representative selection can be seen in an exhibition opening on Saturday. There is a parallel show at the Van Gogh Museum.

Russian gamble at La Scala

Galina Gorchakova proved to demanding Milanese audiences that she can sing Puccini, reports Andrew Clark

Puccini and Prokofiev, Gorchakova and Gergiev: La Scala's famous mustard-brown posters have been top-heavy with Russian names since the start of the year, leaving *Madama Butterfly* as sole representative of the native repertoire. Even in *Butterfly*, the main talking point was the Russian prima donna Galina Gorchakova. Prokofiev has dominated the rest of the programme: the Ballet of La Scala revived Kenneth MacMillan's *Romeo and Juliet*, and the Kirov Opera brought *The Gambler*.

So it was possible on consecutive nights to hear Gorchakova winning her spurs as an honorary Italian, and her St Petersburg colleagues – led by the Kirov's artistic director, Valery Gergiev – championing one of the thorniest of Russian operas. Of the two, Gorchakova was easily the more fascinating. Foreign sopranos who tackle Verdi and Puccini in the high temple of Italian opera do so at their peril: the Milanese *loggionisti* can be ruthless. But Gorchakova – currently one of the hottest properties in international opera – is no stranger to Milan. Two years ago she scored a notable success there in Prokofiev's *The Fiery Angel*, and her Butterfly had been tried and tested in Houston and New York.

Nevertheless, the run-up to opening night was tense even by Milanese standards. Hours before curtain-up, La Scala's management was unable to say if Gorchakova would sing, leading to speculation that she had suffered a recurrence of the vocal problems which dogged her UK performances last summer. In the end, her place was taken by Maria Spacagna. The official explanation was that Gorchakova had 'flu – but her agent, Mark Hildrew of Lies Askonas, later disclosed that she was suffering from the after-effects of unsuitable medication, which had dried out her voice.

Gorchakova clearly worked herself to exhaustion last year – a common enough failing for talented Russians let loose in the west. She is on the mend, and will surely have learned a lesson. Her forthcoming engagements, including a Kirov season in Paris and *Onegin* at the Bastille, are well-spaced.

When she finally did get on stage in the Milan *Butterfly*, she was by all accounts in subdued form. But by the time I heard her a few days later, she looked and sounded comfortable. The voice has a Tebaldi-like breadth, stateliness and substance, enabling her to surmount the orchestra and sustain the role's demanding tessitura without apparent effort. Her legato was breathtaking, and she always gave the impression of having enough to spare, with no flutter on the high notes.

Her "Japanese" gestures were convincingly understated, and she acted with elegant composure. That may explain why her Butterfly won admiration and respect, but failed to touch the heart. She never looked fragile or vulnerable, and the characterisation was spread too evenly, with little development between happiness and heartbreak. Nevertheless, Gorchakova put paid to the notion that Russian sopranos invariably betray their origins. She knows exactly how to sing Puccini. The sooner Milan hears her Verdi, the better.

Gorchakova could not have wished for a more sympathetic staging of *Butterfly* than Keita Asari's, which he first mounted at La Scala in 1985. Although it seemed risky at the time, the choice of a Japanese production team was inspired. Asari and his designers (Ichiro Takada, Hanae Mori and Sumio Yoshi) do not "go native" with Puccini. They respect the fact that this is a European view of Japan, which they project through a filter of delicacy, authentic ritual and Japanese aesthetics. There are no vulgar Yankee overtones, no stabs at realism. The arrival of the geisha chorus, the love duet, the silhouetted figure in the intermezzo and even Butterfly's suicide, her dagger unfolding into a blood-red fan – all are an integral part of a canvas on which a lyrical tragedy is painted.

The orchestral playing was magisterial, for which Riccardo Chailly deserves the warmest praise. This was Puccini in the Karajan mould – fluent, expansive, incisive. There was a strong supporting cast, led by Johan Botha's Pinkerton and Angelo Veccia's Sharpless. It was the kind of performance, superior in all departments, which one expects at La Scala but does not always get.

Superior in all departments: Galina Gorchakova and Craig Sirianni in 'Madama Butterfly'

The Scala orchestra played equally well in *The Gambler* 24 hours later, obviously inspired by Gergiev's visionary commitment to the score. But in spite of the Kirov soloists' heroic singing, the rewards were less obvious. *The Gambler* was Prokofiev's problem child. Completed just before the Russian revolution, it is the work of a gifted, idealistic and well-read composer whose theatrical instincts have yet to be tempered by practical experience. Prokofiev jettisoned traditional set-pieces in favour of what he saw as a new, conversational type of opera. *The Gambler* teems with musical ideas and motoric rhythms – but its restless, breathless energy is self-defeating.

An injection of visual fantasy and theatrical bravura would have helped to counter this impression in Milan. But the St Petersburg staging, credited to Temur Tchkeidze, looked cheap and dated, and made no attempt to explore the rich psychological pickings of a group of obsessed, posturing characters. The climactic gambling scene resembled a sparsely-populated game of charades – no extras, no tables, no gambling chips, no atmosphere. All trace of theatrical suspense was broken by the penultimate scene, which the Scala chorus sang like an oratorio, strung across the stage in concert dress.

Vladimir Galouzin's Alexey – the Byronesque young tutor on whose fate the action turns – was the only character to emerge unscathed. He was pictured at the start of each scene at the side of the stage, reading his own story from the pages of the Dostoyevsky novel on which the opera is based. It was a legitimate framing device, allowing Alexey to be seen in reflective mood as well as driven by obsession.

And Galouzin is a tenor in a thousand. In recent months I have raved about his contributions to the Met's *Lady Macbeth of Mtsensk* and the Bregenz *Kitezh*. His Alexey – footloose, headstrong, desperate in romantic entreaty – was on the same charismatic level. He acts without artifice, and he acts with his voice: the sneering tone with which he hurled his insults in Act 1 was a vivid example. This is artistry on a par with his former Kirov colleague Sergey Leiferkus.

Returning to La Scala after a long absence, Elena Obraztsova turned the Grandmother into a doughty old battle-axe, overbearing in manner and unexpectedly steady of voice. Lyuba Kazarnovskaya's statuesque Pauline sounded light-voiced for the part and moved with the contrived gestures of a typical Slav soprano. Apart from the Croupier, the supporting characters had fine voices; all needed a stronger director.

It is noble of Gergiev to promote Prokofiev's music wherever he goes, but this production of *The Gambler* would have been better left at St Petersburg. Had it not been for Gergiev's reputation, the Milan audience would have been even thinner. Nevertheless, his visit was a personal success, and like Gorchakova, he is sure to be invited back.

Further performances of *The Gambler* tomorrow, Thursday and Sunday. *The Kirov Opera's Paris season runs from February 15 to 25 at the Théâtre des Champs-Elysées. Repertory includes The Gambler, Prince Igor* and *La forza del destino.*

Nigel Andrews remembers the demotic athleticism of the world's most famous musical star

Gene Kelly – the great all-rounder who set the pace

Gene Kelly, who died last Friday aged 83, was the greatest star of the post-war movie musical. The contrast in backgrounds with his famous, older rival said it all. Fred Astaire grew up on the dance floor, had flying feet from age seven and came to fame in the roaring late 1920s. Gene Kelly was a petrol station attendant and ditch-digger, among other jobs, before his Broadway debut in 1938. No wonder we think of Astaire as all *belle epoque* elegance and Kelly all demotic athleticism.

He made his film debut in 1942 in *For Me and My Gal*. Ten years later, after completing in 1951 his two back-to-back masterpieces *An American in Paris* and *Singin' in the Rain*, he had rewritten the history of the movie musical.

Before Kelly and MGM came together, the typical Hollywood song-and-dance film was a *soufflé* in black and white. It had elegant sets and upper-crust storylines and its performers were human butterflies who seldom touched the ground even when their scripts did.

If MGM's 1939 *The Wizard Of Oz* broke the mould in visual terms, with its garish colours and gaudy-fantastic sets, Gene Kelly was the man who set new styles and possibilities for the performer.

Here was a plainspun, extrovert fellow with a boy-next-door smile and a voice that sounded as if he caught colds like other human beings. He also acknowledged the force of gravity. It was exhilarating to watch him dance, because it looked like hard work crowned by virtuosity.

Nothing showed the difference between cinema's greatest hoofers better than their famous rain numbers. Astaire's "Isn't it a lovely day/ To be caught in the rain?" from *Top Hat* is a featherweight romantic frolic in and around a park bandstand. Kelly's "Singin' in the rain" gets right out there in a rain-flooded street, tunefully battles the elements and ends with its performer soaked through. (He had a temperature of 100 when he filmed it).

But Kelly's on-screen achievement is only half the story. As a director and choreographer he helped to shape and define the new-look Hollywood musical. Films like *On the Town* , *Singin' in the Rain* and *It's Always Fair Weather*, all co-directed by Kelly with Stanley Donen, had a vibrant all-colour immediacy and a through-composed feel.

The plots did not stop and start, interrupted by the music, they flowed through and round the numbers. The camera did likewise, craning and panning as if it had caught the dance mood.

Nothing like this had been seen before in musicals, even in the spectaculars of the pre-war Busby Berkeley. Where Berkeley filmed human beings as cogs in a giant choral *mise-en-scène*, the more realistic Kelly and Donen united uncommon rapture with common humanity.

Gene Kelly in 'Singin' in the Rain'

After his MGM heyday Kelly's career diversified into straight acting (*Inherit the Wind*), solo directing (*Hello Dolly*), compering and guesting in anthology shows (*That's Entertainment II*) and giving rare interviews to film journalists.

I met him five years ago at his house in Rodeo Drive, Beverly Hills. A visitor had the privilege of seeing Kelly without his public toupee: a balding, fatherly figure in a well-worn, very un-Rodeo-Drive cardigan. He reminisced for an hour over tea and biscuits and once, to illustrate a point, broke into the introductory 'vamp' from *Singin' in the Rain*. "Doo-de-do-dooh, do-de-doo-de-do-dooh..." One of the rewards of being a film critic is that, just sometimes, you can be sitting down when the world's most famous musical star sings the screen's most famous music, right there in front of you.

Outliving Astaire, Kelly also outlived the Hollywood musical. It has never quite recovered, nor have its fans and audiences, from his retirement as the genre's greatest all-round practitioner.

INTERNATIONAL ARTS GUIDE

■ AMSTERDAM

CONCERT
Concertgebouw
Tel: 31-20-5730573
● Chor und Symphonieorchester des MDR Leipzig: with conductor Neeme Järvi, soprano Claron McFadden and baritone Donald George perform R. Schumann's Symphony No.3 and Orff's Carmina Burana; 8.15pm; Feb 10
OPERA
Het Muziektheater
Tel: 31-20-5518117
● Die Frau ohne Schatten: by R. Strauss. Conducted by Hartmut Haenchen and performed by De Nederlandse Opera and the Nederlands Philharmonisch Orkest. Soloists include Thomas Moser, Ellen Shade, Jane Henschel and Albert Dohmen; 7pm; Feb 6, 10

■ ANTWERP

OPERA
De Vlaamse Opera
Tel: 32-3-2336808
● Tosca: by Puccini. Conducted by Silvio Varviso and performed by De Vlaamse Opera. Soloists include Maria Guleghina, Fabio Armiliato and Knut Skram; 8pm; Feb 6, 9, 11 (3pm)

■ BERLIN

OPERA
Komische Oper Tel: 49-30-202600
● Werther: by Massenet. Conducted by Shao-Chia Lü and performed by the Komische Oper. Soloists include Hoffmann-Mucher, Korovina, Fink and Haye; 7.30pm; Feb 8

■ BOLOGNA

CONCERT
Teatro Comunale di Bologna
Tel: 39-51-529999
● Tristan: by Pennisi. Concert performance by the Orchestra del Teatro Comunale di Bologna, conducted by Marcello Panni. Soloists include Susanna Rigacci and Luisa Castsellani; 8.30pm; Feb 10, 11

■ BRUSSELS

OPERA
Théâtre Royal de la Monnaie
Tel: 32-2-2291200
● Khovanshchina: by Mussorgsky. Conducted by Paul Daniel and performed by La Monnaie. Soloists include Willard White, Jacques Trussel, Anatolij Kotscherga and Anne Bolstad; 7.30pm; Feb 6, 8, 11 (also 2pm)

■ CHICAGO

CONCERT
Orchestra Hall Tel: 1-312-435-6666
● Chicago Symphony Orchestra: with conductor Daniel Barenboim and pianist Evgeny Kissin perform works by Elgar, Wilson and Brahms; 7.30pm; Feb 8

■ FLORENCE

CONCERT
Teatro Comunale
Tel: 39-55-211158
● Orchestra del Maggio Musicale Fiorentino: with conductor Pinchas Steinberg and cellist Natalia Gutman perform R. Schumann's Cello Concerto in A minor, Op.129 and Mahler's Symphony No.6; 9pm; Feb 9, 10, 11 (3.30pm)

■ HELSINKI

OPERA
Opera House Tel: 358-0-403021
● Il Barbiere di Siviglia: by Rossini. Conducted by Miguel Gómez-Martinez and performed by the Helsinki Opera. Soloists include Charles Workman, Kalevi Olli, Marussa Xyni and Sauli Tiilikainen; 7pm; Feb 7, 10

■ LILLE

DANCE
Opéra de Lille Tel: 33-20 06 88 04
● Nederlands Dans Theater: perform four choreographies by Jiri Kylián: No more play, to music by Webern, Petite mort, to music by Mozart, Falling angels, to music by Reich, and Field mass, to music by Martinu; 8pm; Feb 6, 7

■ LONDON

CONCERT
Barbican Hall Tel: 44-171-6388891
● A Whiter Shade of Pale: performance by Procol Harum with lead singer Gary Brooker and The London Symphony Orchestra, conducted by Nicholas Dodd. The programme includes Homburg, Conquistador, Grand Hotel, Pandora's Box, A Whiter Shade of Pale, and other works; 7.30pm; Feb 8
St. John's, Smith Square
Tel: 44-171-2221061
● The Camden Choir: with conductor Julian Williamson, tenor Mark Wilde and bass Trevor Craddock perform De Victoria's O Magnum Mysterium, Monteverdi's Mass (1642) and Schütz's St Matthew Passion; 7.30pm; Feb 7
DANCE
Royal Opera House - Covent Garden Tel: 44-171-2129234
● The Sleeping Beauty: a choreography by Petipa to music by Tchaikovsky, performed by The Royal Ballet. Soloists include Miyako Yoshida and Irek Mukhamedov; 7.30pm; Feb 6
OPERA
London Coliseum
Tel: 44-171-8360111
● Die Zauberflöte: by Mozart (in English). Conducted by Alexander Sander and performed by the English National Opera. Soloists include Ian Bostridge, Janice Watson and Peter Snipp; 7.30pm; Feb 8

■ LUXEMBOURG

DANCE
Théâtre Municipal Tel: 352-470895
● Ballet de Madrid Victor Ullate: perform Niels Christe's choreography Before Night Fall, to music by Martinu, and the choreographies De Triana a Sevilla and Arrayan Daraxa by Victor Ullate, to music by Sanlucar and Delgado; 8pm; Feb 7, 8, 9

■ METZ

CONCERT
L'Arsenal Tel: 33-87 39 92 00
● Jerusalem Symphony Orchestra: with conductor David Shallon and pianist Anatol Ugorski perform Prokofiev's Piano Concerto No.2 and Brahms' Symphony No.1, and a new work by Leef; 8.30pm; Feb 7

■ MUNICH

OPERA
Nationaltheater
Tel: 49-89-21851920
● Aida: by Verdi. Conducted by Roberto Abbado and performed by the Bayerische Staatsoper. Soloists include Gerhard Auer, Waltraud Meier (Feb 6), Elisabetta Fiorillo (Feb 11), Cheryl Studer, Dennis O'Neill and Kurt Rydl; 7pm; Feb 6, 11

■ NEW YORK

CONCERT
Avery Fisher Hall
Tel: 1-212-875-5030
● A Date with the Devil: performance by bass Samuel Ramey, accompanied by the Orchestra of St. Luke's with conductor Julius Rudel. The programme includes works Berlioz, Meyerbeer, Boito, Offenbach, Stravinsky and others; 8pm; Feb 7

■ PARIS

CONCERT
Cité de la Musique
Tel: 33-1 44 84 45 00
● Ensemble Intercontemporain: with conductor David Robertson and soprano Françoise Pollet perform works by Rihm and Zimmermann; 8pm; Feb 8
Théâtre du Châtelet
Tel: 33-1 42 33 00 00
● Wolfgang Schmidt and Keiko Tamura: the cellist and pianist perform sonatas by R. Strauss and Brahms; 0.45pm; Feb 7

■ SEATTLE

EXHIBITION
Seattle Art Museum
Tel: 1-206-625-8900
● In the American Grain: Arthur Dove, Marsden Hartley, John Marin, Georgia O'Keeffe and Alfred Stieglitz: exhibition of 81 works focusing on the response of early twentieth century artists to both modernism and the American landscape; from Feb 8 to May 5

■ VIENNA

CONCERT
Musikverein Tel: 43-1-5058681
● Pittsburgh Symphony Orchestra: with conductor Lorin Maazel and violinist Julian Rachlin perform Sibelius' Finlandia and Violin Concerto, and Bartók's Concerto for Orchestra; 7.30pm; Feb 7, 8
OPERA
Wiener Staatsoper
Tel: 43-1-514442960
● Il Barbiere di Siviglia: by Rossini. Conducted by Jan Latham-König and performed by the Wiener Staatsoper. Soloists include Loukianetz, Winsauer, Schade and Sramek; 7pm; Feb 6

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Michael Prowse · America

Bring back gold

Private markets could supply money as efficiently as any other goods or services, doing away with the need for central banks

The Federal Reserve's latest easing of monetary policy set me thinking. Do we need central banks? Must interest rate decisions be taken either by politicians or, as in the case of the Fed, by a semi-independent committee answerable to Congress?

The answer, surprisingly, is no. In theory there is no reason why money should not be supplied competitively by private markets. This is not, I hasten to add, the opinion of most monetary "experts". They believe central banks are indispensable: without them, we would face financial chaos, high unemployment and declining living standards. Abolish central banks and the world as we know it would end.

This is nonsense. Precious metals such as gold are produced privately and served as a means of exchange for centuries. Inflation was typically minimal. Private money is thus clearly feasible.

The alleged problems arise with the emergence of commercial banking. People find it convenient to store their gold (or other commodity money) somewhere and use paper claims (banknotes or current accounts) for daily transactions. Banks then seek profits by lending most of the commodity money deposited with them to new customers. Eventually, the banks' reserves cover only a small fraction of their liabilities. Most people hold money claims that cannot, in the aggregate, be redeemed.

Opponents of free banking say such a regime is inherently unstable. With a "fractional reserve" system, private banks will issue too many banknotes and deposits, causing inflation. There will be confidence-shaking "runs" on banks as customers try to withdraw funds. The only solution is a government takeover. A central bank must be granted a monopoly over the issue of banknotes and extensive regulatory powers. By requiring banks to hold reserves with it against a certain proportion of their deposits, the central bank assumes full control of the money supply. Governments usually then offer further "protection" by providing deposit insurance and by requiring central banks to act as "lenders of last resort".

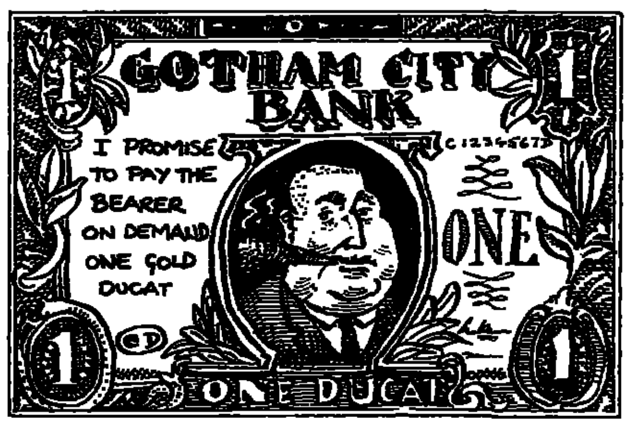
Such measures are not really necessary. Imagine a world with many private banks issuing banknotes and deposits representing claims on gold (rather as American Express travellers cheques represent claims on US dollars). Since there would be no possibility of government bail-outs, any hint of imprudence would cause customers to shift to competitors.

But suppose, despite the obvious risks, one bank tried to expand its note issue irresponsibly. Since its clients would spend the money on goods and services, the notes would be transferred to other people, most of whom would be clients of other banks. These banks would return the notes to the first bank and demand payment in gold. The first bank would lose reserves and be forced to rein in its lending. The market discipline would be stronger the larger the number of independent note issuers.

This is not an armchair theory. Free banking on these principles worked in Scotland for over a century as Professor Lawrence White of the University of Georgia has shown in a pioneering study*. From the early 18th century until 1844, Scotland had no central bank. There were no restrictions on entry to the banking industry and almost no legal regulations. Commercial banks issued their own banknotes, backed by their own holdings of gold specie.

As Prof White explains, a *laisser faire* regime resulted in a far more stable banking system than that enjoyed by England at the time, where the government intervened in numerous unhelpful ways. There was little fraud. There was no evidence of over-issue of notes. Banks did not typically hold either excessive or inadequate reserves. Bank runs were rare and not contagious. The free banks commanded the respect of citizens and provided a sound foundation for economic growth that outpaced that in England for most of the period.

Suppose – for the sake of argument – that the Scots are simply uniquely sensible. Suppose that free banking elsewhere would prove unstable. Is there any other way to do without central banks? The answer is yes. The above regime could be made wholly stable by requiring private banks to hold 100 per cent gold reserves against their issue of notes and demand deposits. One prominent American libertarian economist – the late Murray Rothbard – argued that such a condition ought to apply as a matter of course. Banks, he argued, were guilty of "implicit theft" if they promised to redeem notes or deposits on demand, but in fact lacked the reserves to meet more than a fraction of the possible claims.



With 100 per cent reserves, private banks would be as stable as any other business. The occasional bankruptcy could still occur but destabilising "runs" would not happen. Nor could competition between banks lead to over-issue of notes: the money supply would equal the gold stock, which could rise only slowly as new mines were developed.

What about the opposite risk? Could either version of free banking lead to inadequate money growth? After all, the Fed is charged not just with preventing inflation but with sustaining economic growth. The answer again is no, provided economic policy generally is run on free-market principles. Money is useful because it is a means of exchange: unlike other commodities it is not "used up" in production. Provided prices and wages are flexible, a community can make do with any fixed amount of money. As the supply of material goods increases, money prices will tend to fall, allowing the money stock to support a higher level of real economic activity. Such gradual price declines were not uncommon in the 19th century.

There are, in short, no theoretical reasons why the world could not enjoy free banking based on gold (or some other commodity money). It is only the myth that central banks are an essential pillar of monetary stability – strangely intact after half a century of continuous inflation – that prevents the privatisation of money.

**Free Banking in Britain. Institute of Economic Affairs, 2 Lord North Street, London SW1P 3LB.*

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

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Iberia: state has same right as private sector to rescue 'subsidiary'

From Mr Stephen Kinsella.

Sir, Most commentators, and your leader "Spanish subsidies" (February 2), show understandable scepticism over the correctness of the European Commission's decision not to object to Spain's capital injection into the ailing national airline. Michael Skapinker's report ("Would market investors put Pta87bn in Iberia?") questioned whether any third-party investor would be interested in taking a stake in Iberia. A number of industry analysts debated whether there would be any possibility of launching a successful rights issue. All very interesting, but not strictly relevant to the Commission's "market investor" test.

Community law has come to recognise as a fundamental principle that there should not be discrimination between private and state-owned enterprises. The state should be able to react as any other private investor without its actions automatically being categorised as unlawful state aid.

The test is therefore not whether any third party could now be found to bail out Iberia but whether a third party in the position of the Spanish government, faced with a "subsidiary" in financial difficulties similar to those of Iberia, might reasonably decide to inject capital in a responsible effort to salvage its investment and return it to profit in the medium or even long term. Sometimes the state can be wrong, but as we have seen with Dasa's withdrawal from Fokker, even the market is capable of poor investment decisions.

The Spanish government may well be throwing good money after bad, but that alone does not convert poor commercial judgment into unlawful state aid.

Stephen Kinsella,
resident partner,
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15 Rue Guimard,
1040 Brussels, Belgium

Attention on French deficit and pessimism about Emu are overdone

From Mr Avinash Persaud.

Sir, Your otherwise excellent leader ("Faltering at Emu's altar", January 29) omits an important dimension to the Emu debate – Germany's growing economic interest in Emu's early arrival. Take this into account and it is arguable that the attention being levelled at France's fiscal deficit is misplaced and today's bout of Emu pessimism is overdone. Once the European economy started to slow it was always going to be tough for France to get its deficit down to the levels referred to in the Maastricht treaty. What really matters is not how far France travels towards these reference rates, but how liberally the German government interprets the convergence criteria.

The criteria allow for interpretation, as Samuel Brittan rightly points out ("What few know about Emu", January 29). In Germany, that interpretation will be coloured by whether the German people still view a strong D-Mark as a virtue, or increasingly see it as a burden. My bet is on burden.

As local and foreign companies export jobs out of Germany to cheap-currency countries such as the UK, US and Asia, unemployment has risen and external deficits have worsened. This year, Germany will have its largest deficit since the oil price shock of 1980. Unemployment, at close to 4m, is at a level not seen since 1945 despite near-record low interest rates. An estimated 300,000 jobs have migrated abroad over the past five years and more will follow: in 1995, annual direct investment in foreign countries by German companies doubled.

If the D-Mark remains strong and these trends continue, German willingness to replace the D-Mark with the Euro will grow. Mr Giscard will have his way and the Bonn government will interpret the convergence criteria more openly, allowing Emu to arrive in 1999.

Avinash Persaud,
head of currency research,
J P Morgan Europe,
London EC4Y 0JP, UK

EU countries must end trade discrimination against S Africa

From Mr Ben Jackson.

Sir, You report the agreement of EU foreign ministers to finalise their negotiating mandate on trade relations with South Africa at their next meeting on February 26 ("EU set to start talks on S Africa trade area", January 30) – though it is hardly an "early start" to talks officially launched last June.

Indeed, nearly two years since the birth of South Africa's first non-racial, democratic government, it still gets a worse trade deal from the EU than most other non-OECD countries. Recent opportunities to end this discrimination have brought only minor concessions from European governments. On products like avocados South Africa still faces a 6 per cent tariff, while a richer competitor like Israel pays nothing. On melons it pays 11 per cent – Turkey and Venezuela pay nothing.

More worrying is the price that some member states expect for starting talks. As your piece notes, they want many of South Africa's key farm products put off limits in the negotiations as "sensitive". In fact, a current list circulating among member state officials could exclude nearly 60 per cent of South Africa's farm exports to the EU under this rubric.

Such pre-conditions would mean European governments ditching their pledges of support for the new South Africa the first time narrow interest groups predictably conjure up a trade threat spectre quite out of line with economic reality. South Africa makes up just 1.7 per cent of Europe's total farm imports.

It is particularly disappointing that Germany appears to be eschewing earlier liberal statements to support such restrictive lists. In September 1995 you reported on Chancellor Kohl's promise to President Mandela in Cape Town of "full economic backing for the fledgling democracy" and support for "South Africa's attempts to win better access to the markets of the European Union". Germany is the largest EU exporter to South Africa, with which it has a yawning trade surplus. How is South Africa to go on buying from Germany and other EU member states, if they strangle its ability to sell to Europe?

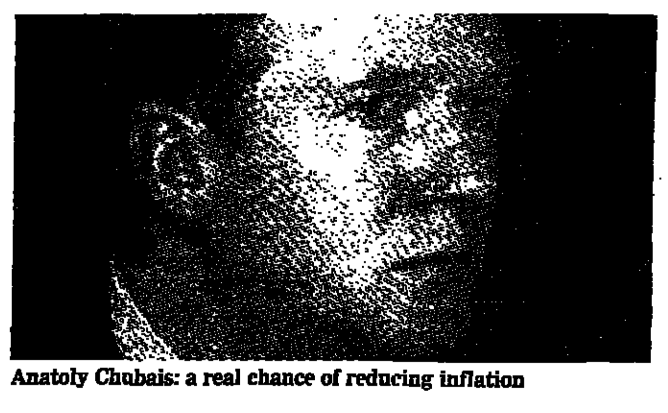
Apartheid has left millions of South Africans in desperate poverty. More than one in three are jobless. To help South Africa tackle this terrible legacy European governments must end trade discrimination and agree in February to talk without pre-conditions.

Ben Jackson,
director,
Action for Southern Africa,
28 Penton Street,
London N1 9SA

Personal View · Anatoly Chubais

Down the rouble corridor

A decision to boost spending ahead of the election could deal a fatal blow to reformers in Russia



Anatoly Chubais: a real chance of reducing inflation

If I were asked to give advice to governments carrying out financial stabilisation, I would say this: do not try to solve this problem during the run-up to an election – if, of course, history gives you the chance to avoid doing so.

My appointment as deputy prime minister responsible for the economy occurred in November 1994 after the stormy events of "Black Tuesday", when the rouble fell by a third against the dollar in just a few days. The drop was preceded by a number of decisions to increase budget spending financed by central bank credits.

As a result, monthly inflation reached 18 per cent by the start of 1995, setting off a mass retreat from the rouble. Financial markets were in a panic, deepened by the unsuccessful military actions of Russian troops in Chechnya.

The main demand for hard currency came not from the commercial banks but from the population at large. The hard currency reserves of the central bank dropped during the last week of January below \$1bn, with sales of up to \$250m a day. The country was one step away from a large-scale financial catastrophe.

The catastrophe was averted only thanks to the strict economic policy introduced by the government with the backing of the central bank. This involved a sharp reduction and then elimination of budget financing through central bank credits which succeeded in easing the pressure in the currency markets by the beginning of February.

While this was happening, the government had to secure parliamentary approval for the 1995 budget and conclude agreements with the International Monetary Fund for a standby loan. The budget aimed to reduce the deficit from 11 per cent to 5 per cent of gross domestic product, and it took three months of battles and more than 30 rounds of voting in parliament last year to win passage.

However, for the first time since the start of the reforms, Russia had set a sensible and strict budget in the first quarter of the fiscal year. Negotiations were successfully completed with the IMF for a standby loan which not only provided an additional \$6bn for the federal budget but also ensured strict monthly monitoring of the most important economic indicators.

With a solid foundation for financial and economic policy, it was necessary to reduce inflationary expectations which remained extraordinarily high. The foreign exchange markets, for example, viewed as inevitable a two-fold or even three-fold drop in the value of the rouble by the end of 1995. These expectations were reflected in futures dealing and taken into consideration in contracts for international trade.

The government believed the stabilisation of the money supply and the strict budgetary policy would preserve the existing rouble exchange rate until at least the end of 1995. This logic led to the idea of a "rouble corridor", an exchange rate band which the government and the central bank declared they would defend for the third and fourth quarter of the year.

We knew the strict financial stabilisation measures would inevitably impose acute social and economic strains in some parts of the country. It was important to ensure that none of these escalated into political problems, such as a strike in the important coal industry. To avoid disruption of coal supplies, a high-ranking government delegation went to the most militant strike region. Meetings and negotiations at the mines succeeded in halting the strikes.

But there was also the threat of a crisis in the banking sector, which had been largely created and grown strong under double-digit monthly inflation. Russian banks and their customers were accustomed to operating in an environment which made it easy to repay loans in devalued roubles. But our success in bringing down inflation to 5.5 per cent a month by June 1995 disrupted this process and made a banking crisis almost inevitable. In one day at the end of August, the daily interest rate on interbank lending rocketed to an annualised rate of 1,000 per cent and the market almost shut down.

If a grenade explodes in the room in which you are sitting it is difficult to know whether the entire city has been destroyed or just your room. With this feeling, we attempted in the course of the first days of the crisis to estimate its dimensions. We were lucky – and here I do think we are talking about luck – because the crisis turned out to be relatively moderate. It did not lead to the total collapse of the banking system, although 150 banks lost their licences to operate by the end of the year.

The measures taken at the start of 1995 succeeded in bringing about a dramatic turnaround in the economy of our gigantic country. Inflation declined consistently throughout the year, with the traditional autumn inflationary spurt being avoided for the first time since the start of economic reform. By December, inflation had sunk to a record low of 3.2 per cent a month.

The volume of speculative trading on the currency markets also declined approximately three-fold, and by the end of the year central bank foreign currency reserves were 12 times higher than at the beginning of the year. Russia had fulfilled all its obligations to the IMF, which allowed the signing of an agreement with the London Club for rescheduling its foreign commercial bank debts over 25 years. The fall in production in 1995 was only 3 per cent instead of the expected 10 per cent to 12 per cent.

In December, decisions were adopted on the renewal of the rouble corridor at a new level for six months. The federal budget for 1996 was approved by parliament and signed by the president on December 31.

The results achieved were aimed at long-term goals, but the short-term economic consequences were felt at a politically vulnerable moment – during the run-up to December's parliamentary elections.

Controls on public expenditure and the additional costs incurred in Chechnya caused delays in government payments, including wages for public-sector workers. Inter-enterprise debts, which had declined by June, returned to the January level in the second half of the year, creating delays in their wage payments of up to three months.

The Russian economy entered 1996 in a much stronger – if highly fragile – condition. There are real chances of reducing inflation to 1 per cent a month by the middle of the year, reaching agreement with the IMF on an extended three-year loan facility and with the Paris Club of western government debtors on debt restructuring.

Equally real, unfortunately, are the chances of not reaching an agreement with the IMF and the Paris Club. Worse, there is a danger of populist government expenditure ahead of the presidential election in June that will increase the budget deficit. Such moves would not only give a boost to inflation, they would also lead to a crisis on the foreign exchange and bond markets, and threaten a collapse of the banking system before the election.

If any decision to boost spending will happen it will become clear that my departure from the government last month was more than a change in the membership of the political elite: it would be a change in economic policy capable of inflicting a fatal blow to those who made this decision.

The author was first deputy prime minister of the Russian Federation between November 1994 and January 1996

FINANCIAL TIMES
Number One Southwark Bridge, London SE1 9HL
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Monday February 5 1996

Nato recovers its morale

The Atlantic alliance has recovered its morale. This was apparent over the weekend at the annual "Wehrkunde" gathering in Munich of western defence ministers and security experts. A year ago the allies were demoralised by their inability to agree on a strategy for ending the war in Bosnia. American legislators warned of their determination to lift the arms embargo, while Europeans complained of US unwillingness to put troops on the ground. Today US troops are on the ground as part of a Nato-led force (Ifor) helping to implement a US-brokered peace agreement. The embargo is a thing of the past.

Everyone feels better. And just as previous failures in Bosnia damaged Nato's cohesion and credibility elsewhere, so the success of Ifor is seen as having implications well beyond Bosnia. It has brought France much closer to the Nato command structure. It has won consensus in Germany for German troops taking part in an allied military operation outside the Nato area. It has demonstrated Nato's capacity to organise such an operation on an ad-hoc basis, with a mix-and-match combination of troops and other military assets. It has given tangible expression to the "Partnership for Peace" between Nato members and non-members, bringing in neutrals and former adversaries. And it also shows practical cooperation is possible between Nato and Russia.

All this is encouraging, but it would be premature to suggest that Nato has weathered its post-cold war traumas. Peace in Bosnia is as yet a very fragile foundation for such hopes. Ifor's authority may not be directly challenged while it is in place, but if its withdrawal at the end of the year were accompanied by a new descent into chaos and conflict, this would undoubtedly give rise to a new round of transatlantic recriminations. Several American speakers in Munich stressed the importance of the civilian reconciliation and reconstruction effort for which Carl Bildt, the former Swedish prime minister, has been given responsibility, and the urgency of giving him the resources he needs. Europeans were quick to point out that the US has so far refused to contribute a single dollar for this side of the operation.

Nor can it be assumed that the experience of working with Nato in Bosnia will soften Russia's hostility to Nato enlargement. For the moment there is an agreed Nato line, which insists that the organisation will be enlarged but partnership and cooperation with Russia must also be deepened. Decisions about when to enlarge, and which countries to include, have been put off until next year. But if by next year Russia is no closer to accepting the bargain, Nato will face invidious choices which could also prove deeply divisive.

Forbes' funds

American presidential elections are rarely uneventful affairs. Every contest appears to produce its own novelty although they are often transitory in impact. The phenomenon of 1996 so far has been the prominence given to Malcolm "Steve" Forbes Jr. His bandwagon has been propelled by three factors – a Republican field that has failed to inspire voters; a press corps keen to see a dramatic contest; and a simple, upbeat message, the flat tax – and fuelled by millions of dollars of the candidate's own money.

It is the question of this finance that should cause most concern. Since 1974, largely as a consequence of the excesses and illegalities of President Nixon's 1972 re-election campaign, US presidential nominations have been organised on a partially publicly funded basis. In return for some matching funds from the taxpayer, candidates have agreed to abide by limits on how they raise and spend money. No individual may donate more than $1,000 or interest group more than $5,000 to a candidate. The identity of all contributions exceeding $200 is recorded and available for public inspection. Legal ceilings for total spending in all primary and caucus contests are laid down.

This system was not made mandatory on candidates, largely for fear that it might not be constitutional. It was assumed that in the aftermath of Watergate all self-respecting candidates would opt into the new regime. With one inconsequential exception, all candidates for the nomination of the two major parties have indeed done so, although Ross Perot opted out of the separate public financing scheme for the general election proper in 1992.

The Forbes campaign has smashed that taboo comprehensively. His largely self-financed candidacy has allowed him to swamp the airwaves of Iowa and New Hampshire in a way that is impossible for his rivals – because they have accepted the spending limits in those states. This is his right. But his choice may have repercussions for the credibility of post-Watergate funding arrangements. Furthermore, he has blasted the other Republican contenders for accepting taxpayers' money in their campaigns – thus attacking the official system, while himself ignoring it.

It should be noted that such personally financed campaigns have enjoyed little success in the past. Despite that, there is already speculation that the Forbes example will encourage future candidates to emulate his approach. This would be a retrograde step. The strain of collecting money even under the conventional process has led to credible politicians rejecting the race this year.

The present rules have many loopholes. Nevertheless, the central aims of transparency and accountability have been largely achieved. This is a better system than its predecessor. It needs to be kept and strengthened rather than by-passed and abused as Mr Forbes has done.

TV sport

Whose sport is it anyway? The question of television rights to sporting events is proving the most contentious part of the UK's Broadcasting Bill. A proposed amendment which aims to preserve universal access to some events has much to be said for it. But MPs should be wary of adding special clauses, which could be redundant or even counterproductive as the industry changes.

The spectre looming over the debate is that of Mr Rupert Murdoch. His News Corporation has been buying up rights to the world's leading sporting events, aiming to persuade people to subscribe to its television services. The group, which has a 40 per cent stake in British Sky Broadcasting, the UK's leading satellite service, has picked up exclusive rights to the Ryder Cup and overseas test cricket; it also has rights to others such as Premier League football, although terrestrial channels can usually show highlights.

One amendment which will be tabled when the bill goes into committee stage in the Lords tomorrow would give terrestrial broadcasters the right to buy recorded highlights of events screened live on satellite. Another would ensure that eight major events, including the Grand National, the Wimbledon finals, the Olympics and soccer World Cup, were shown on terrestrial television.

There is a case for both provisions. Sport is part of the social and cultural fabric, and it is wrong to remove it entirely to the private sector. But it is also essential to recognise that the old world of free sports programmes has largely gone.

The change has occurred because of encryption technology, which allows satellite channels to control access and so to charge viewers. In the past, the duopoly of BBC and ITV has paid sporting bodies very little for television rights, compared to the sums which viewers might be prepared to pay. BSkyB is now extracting more of that value from the viewer. The winners will be the sporting organisations, and the athletes and players themselves. Those who attend events may also find that ticket prices are lower.

That is not to say there is no risk of BSkyB abusing a dominant position. The Office of Fair Trading is right to have started considering sporting rights under the Restrictive Trade Practices Act; it is also examining BSkyB's position under competition legislation.

Despite these concerns, the risk of one group dominating the sporting rights market may well lessen. When the BBC and ITV begin digital services, they too will be able to offer subscription and pay-per-view, and will then be able to bid more. MPs should beware of writing anti-Murdoch provisions into legislation which may soon look absurd, and may even frustrate the efforts of terrestrial channels to compete.

A revolution at your fingertips

The bill deregulating US telecoms means profound changes for the providers of services and for consumers, says Tony Jackson

When the US Congress finally passed its bill deregulating telecommunications last Thursday, phone companies fell over themselves in their congratulations. The visionary leaders on Capitol Hill were making history, they said. The bill was a milestone: perhaps the most important economic measure of the decade.

When corporations respond to legislation in this way, consumers might well feel uneasy. In fact, the applause was largely token: a nod in the direction of competition and free markets as part of the American way. As companies are well aware, the deregulated world of telecoms and media will be a bruising one. There may be casualties.

The most obvious aspect of the bill is that it frees several industries to compete with each other. Local and long-distance phone companies, segregated by law when the old AT&T was broken up in 1984, will be allowed into each others' markets. Both will be allowed to compete with cable TV companies, and vice versa.

Behind that lies a more profound change. In yesterday's world, households and businesses relied for their services on a variety of sources. The reason was simple. The phone link, the rented video, the library book or the electricity bill were physically distinct and differently delivered.

Now, all these services can in principle be reduced to a common form: a string of digital code, in bits and bytes. At the same time, an increasing number of businesses and households are connected to the outside world by a fibre-optic cable – the so-called broadband pipe – which can handle digital data in practically limitless amounts.

The pipe can come from various sources: from the telephone company, the cable TV company or even the electricity company. Its uses are endless, from E-mail or video conferences to remote control of the heating or the burglar alarm.

In an unregulated world, any provider of the link will naturally seek to invade the territory of others. In doing so, companies are turning to the idea of the one-stop shop – or "bundling", as it is known.

The theory is that customers will welcome a single supplier of a bundle of services, from telephone and TV to the Internet and beyond. The attraction lies in simplicity: the single bill, and the single technical adviser or repair man.

How far this will work in practice is unclear. The telephone companies are convinced, on the basis of their market research, that it will at least apply across the field of telephony. Thus, long-distance, local and wireless companies are all on their starting blocks, eager to snatch up customers as sole supplier of all three services.

Already the principle is being extended. The two biggest long-distance phone companies, AT&T and MCI, have in the past fortnight struck deals to get into the new world of digital satellite broadcasting.

The theory is the same. The satellite can be used to deliver either TV programmes or a link to the personal computer. Either way, the phone company will provide the customer with a single bill for telephony, entertainment and data.

Against this background, the obvious question is what will happen to the telecoms industry's structure. Its present form is profoundly artificial. Leaving aside the separation of local and long distance services, the break-up of AT&T produced seven local companies, or Baby Bells. Under the old system, they were fenced off from each other as local monopolies. In an unregulated world, logic cries out for amalgamation.

One reason is the scope for cost saving. If two adjacent phone companies combine, they can simply hook up their networks and slash their head-office staff. There is another powerful pressure – the one-stop shop concept itself.

In offering a one-stop service, AT&T has advantages extending beyond simple size. It operates across the US in both long-distance and cellular telephony, and has one of the best-known brand names in the country. All it need do is hire local capacity from the Baby Bells, and it can offer a full bundle of services nationwide.

Conversely, of course, the Baby Bells can hire long-distance capacity from AT&T. But they cannot offer wireless telephony nationally, since their networks are local. Also, while their entrenched position makes them formidable competitors locally, their marketing profile is so low that many consumers, asked who their local phone company is, name AT&T.

The obvious answer is to form wider alliances which can be branded nationally. Bell Atlantic and Nynex, two adjacent Baby Bells which between them cover most of the eastern seaboard, have put their wireless operations into a joint venture. AirTouch, the Californian wireless company, is about to join them. The three will then offer a one-stop shop covering much of the country.

Nynex and Bell Atlantic are widely expected to take their partnership further, up to or including a full merger. If so, there will be the more pressure on the other Baby Bells to follow suit. Since the Baby Bells all have market values of $20bn upwards, this promises a bonanza for investment bankers.

Whether these new alliances would be allowed to merge with AT&T or MCI would be a matter for the competition authorities. It would be perverse, certainly, if the 1984 break-up of AT&T – widely recognised as a crucial stimulus to the US information revolution – were reversed. But the trend is clear: within a few years, US phone companies will be fewer in number and much bigger in size.

They will also doubtless extend their boundaries beyond telephony. It might make sense, for instance, for a long-distance company such as AT&T to buy a cable TV company for the sake of its local network.

Nor will the cable companies be idle. Some, such as Time Warner, have ambitious plans in telephony. A year ago, some of the Baby Bells had similar ambitions in cable. The prospect was of a damaging war of attrition, with each side investing billions to do the other's job.

Much of the sabre-rattling has died down. On closer inspection, the phone companies found that some of the technology involved in cable – video on demand, for instance – was more daunting than it looked. More fundamentally, it was hard to make the sums work. The suspicion arose that the general public would not pay enough extra for entertainment to justify the investment.

But a compelling new source of revenue has arrived: the Internet, which in the past year has grown so fast as to catch the phone companies unawares. The average American may be disinclined to pay much for yet another cable channel. But personal computer users – typically more affluent – will pay a good deal for sophisticated Internet connections which will quickly download amounts of data scarcely feasible on a standard telephone link.

The battle lines between the cable and phone companies have thus been redrawn. Standard cable TV connections may be fast, but they only handle incoming data. The development of the market for Internet links may thus depend on who is first to the punch: the phone companies in making their lines faster, or the cable companies in making their networks work both ways.

The two need not be mutually exclusive. In dense urban markets such as Manhattan, different services can doubtless co-exist. Indeed, homes may be linked to three or four different cables. In remote areas, only a single shared link may be affordable.

Meanwhile, new competitors will flock in, from media owners such as News Corporation to Disney and Microsoft. As a result, there will also be business alliances and combinations inconceivable in an age of regulation.

After all, the most fundamental effect of the telecoms bill is to strip the phone companies of their special status. It places them where they belong, as part of the shifting and converging world of communications.

Last year's $9bn purchase by Walt Disney of Capital Cities/ABC – which also owed much to deregulation – showed the barriers crumbling between Hollywood and the TV networks. In the wider world of communications, there are bigger barriers to fall.

· OBSERVER ·

Mr Fix-It's first fix

■ Antonio Maccanico, Italy's premier designate, will need all his Mr Fix-It skills in solving one of his first dilemmas, namely what to do with Lamberto Dini, who is still sitting in the prime minister's office at Palazzo Chigi.

Though a political novice, Dini restored a sense of financial stability after the tumultuous Berlusconi government. That might be deemed to earn him compensation with a ministerial post – even if the rightwing coalition is trying to resist any such move.

Only two jobs would be sufficiently prestigious – the treasury and the foreign ministry. Dini was treasury minister under Berlusconi in 1994 and continued to be titular head while he was premier. But Maccanico would prefer to offer a super-economics ministry to Carlo Azelgio Ciampi, whose prime minister's office he ran from 1993-94. This leaves the foreign ministry, a crucial portfolio during Italy's remaining five months of the EU presidency.

Any change here risks upsetting Susanna Agnelli, a grande dame in her own right, and sister of Fiat boss Gianni. She has set great store by hosting the main event of the presidency – the opening at the end of March of the inter-governmental conference – in Fiat's home town of Turin. The invention of a portfolio of EU affairs seems one of the few ways out of a delicate situation.

Meanwhile, the rules of Italian musical chairs are all too clear. If Maccanico fails to form a government, then Dini returns anyway, albeit as caretaker.

Face question

■ David Wright, Britain's new ambassador to Japan, must be something of a sentimentalist, for he has timed the beginning of his tour to coincide with his wedding anniversary last Saturday. He got married there.

That, not to mention his love-affair with their country – this is his third posting – should go down well with the Japanese. However, Wright may have to reconsider resuming his daily 5km run around the moat of the imperial palace. It makes him look younger than he is. This was a particular handicap when he was posted as ambassador to Korea in 1990. His number two – a tall, grey-haired man with a distinguished-looking beard – was always being introduced as the new ambassador.

Metal fatigue

■ Profits at Thyssen, the German steel and engineering group, may well be lower than last year, but the annual meeting in late March promises to be a quieter affair notwithstanding. For the great-grandsons of August Thyssen, the company's founder, have decided to call it a day.

Counts Federico and Claudio Zichy-Thyssen, who are well-known men-about-town in Buenos Aires, caused a stir last March. They sharply criticised the company, which was struggling through the most recent recession, for failing to pay any dividends. Now they have decided to sell their 17 per cent stake – thus breaking the last formal links between the company and the family.

Federico, 58, and Claudio, 53, are likely to get well over DM1bn for their stake and will no doubt find better ways of investing the money. Claudio has a licence to fly a 747 and runs his own airline, while Federico runs a ranch with 80,000 cattle.

Time, gentlemen

■ Any way of inveigling a few extra francs out of the French taxpayer has to be worth a try. The French government, desperate to prune its portly budget deficit, has been producing tax forms which are easier to understand. The economics minister has also announced what he is pleased to call the "traditional" extension of the deadline for filing. While the law says returns must be in by the end of February, the deadline, says the economics ministry, has again been pushed out to March 4.

Rather than squeezing more out of the punters by means of the generous time allocation, the state's rule-bending may simply encourage more of the same from its citizens as they tot up their year's earnings.

Dead serious

■ Eat your heart out, Pirelli. In the league of corporate calendars that make a statement, the entry from Failure Analysis Associates, a San Francisco engineering group, is a killer. Titled "Disaster of the Month", it kicks off with the Oklahoma City bombing on the cover. The scene for January was hand-picked from the Kobe earthquake, while this month's treat is a computer simulation of the Simpson-Goldman murder.

Where other calendars mark high days and holidays, Failure Analysis's speciality is dismal anniversaries. February's cull include February 4 1977: Two Chicago elevated trains crash killing 11 people; February 13 1633: Galileo detained by the Inquisition in Rome; and, (a mite too upbeat this one, surely) February 17, Great Flood: Noah and animals escape.

Failure Analysis's business consists of looking into the causes and the costs of disasters, but there is one minor failure it has yet to crack: why its calendars did not arrive until last week.

The Financial Times

100 years ago

Yankee combinations
The artificial combinations which are termed "pools" – combinations formed in other words with the intention of creating a monopoly – seem to be indigenous to the soil of the United States. Apart from the frequently unscrupulous and too often sordid wire-pulling operations of the so-called politicians who throng the lobbies of the Capitol at Washington, the average American seems to take most interest in a "pool" of some kind, though, of course, no Yankee has been born who did not rejoice in the possession of, or the desire to obtain, a few patents. Yet, rather strangely, most of these combinations seem to an outsider pre-ordained to failure. We on this side of the Atlantic are unable to understand the fascination which many of the so-called "Trusts" – Sugar, Lead, Cattle-feeding, National Cordage etc. – have had for the shrewd speculative Yankee.

Peruvian stocks
Letter to the Editor: Referring to the several articles of late in your valuable paper re Peruvian securities, surely this country cannot remain hidden and unexplored for ever. It is rich in minerals and in other ways, and the spade has not gone a yard into the earth yet.

FINANCIAL TIMES
Monday February 5 1996

Germany and France want G7 to add Russia

By Peter Norman and Edward Mortimer in Munich

Germany and France are seeking Russia's full admission to the club of the world's richest industrial nations as part of a strategy to strengthen Boris Yeltsin's position ahead of this summer's presidential elections.

Germany's Chancellor Helmut Kohl said at the weekend that he could "imagine there would be agreement in a few weeks" to turn the Group of Seven leading industrial nations into a Group of Eight, including Russia.

Mr Kohl disclosed that the French government was working on a plan that would give Mr Yeltsin equal status with the leaders of the US, Japan, Germany, France, Britain, Italy and Canada at this year's world economic summit in France in July.

Russian demands for equal status with the G7 nations have been a recurring theme in international monetary diplomacy because Moscow feels the present arrangements inadequately reflect the country's position as a great power.

In recent years Russia's G7 summit participation has followed the "G7 plus one" formula by which Mr Yeltsin has attended the meetings, but only to take part in discussions on political and security issues.

Similarly, Russian ministers and officials have attended G7 finance ministers' meetings, but only for discussions on Russia's economic reform efforts or G7 relations with Russia.

Mr Kohl's disclosure caught French officials by surprise. His calculated leak of the plan was apparently designed to give added momentum to the idea as well as support for Mr Yeltsin in Russia's forthcoming presidential elections.

The summit in France will fall between the two rounds of the Russian presidential poll. However, it appears there is some way to go before full agreement among the G7 nations on the group's expansion to include Russia.

Japan has yet to agree. Tokyo has consistently opposed Russian ambitions to turn G7 into G8 because of the unresolved dispute over the Kuriles islands, annexed by the Soviet Union at the end of the second world war.

Investors plan UK property derivatives market

By Simon London, Property Correspondent, in London

Some of the UK's largest investment institutions are planning to launch a property derivatives market in an attempt to put commercial property on an equal footing with other financial assets.

The group, which includes AMP Asset Management, Hermes, The Prudential, Legal & General, ESN Pensions Management, Norwich Union, Scottish Amicable, Standard Life, British Land and National Westminster Bank, is developing a range of over-the-counter forward contracts.

Property has been declining as a proportion of institutional investment portfolios for the last 15 years, partly because buildings are expensive and difficult to trade.

However, fund managers believe that index-linked derivative instruments similar to those available in the equity and bond markets will help reverse this decline.

The Real Estate Index Market planned by the institutions would cover a range of contracts linked to indices produced by the Investment Property Databank, which measures the performance of £50bn ($77bn) worth of institutionally-owned property in the UK.

Such instruments would enable property investors to gain tactical exposure to sectors of the UK property market without buying buildings.

It would also be possible to take short positions in sectors of the property market for the first time.

Lovell White Durrant, the solicitors, is working on the legal and regulatory aspects of the proposed instruments.

Discussions have also been held with Reuters, the financial information group, about a possible screen-based trading system.

Previous attempts to create a liquid property derivatives market have foundered either because of technical problems or low trading volume.

A futures contract introduced by London FOX, the futures and options market, was abandoned in 1991 following illicit attempts by market insiders to boost trading volume.

Since 1994, Barclays Bank has issued £250m worth of property index certificates, linked to the return on the IPD All-Property index, which gives an overall measure of UK commercial property values.

The working party envisages instruments linked to the performance of individual market sectors, such as retail or commercial offices.

It is felt that a tactical instrument developed by users themselves will generate greater trading volumes.

Trade call

Continued from Page 1

75 per cent of all foreign investment in the world, the EU and North America have a stake in "widening opportunities for enterprise around the world", he will argue, adding "by working together, we will set an example for others". The speech will raise eyebrows in France and southern Europe by insisting, in a reference to agriculture, that "no area can forever be closed off" from efforts to liberalise trade.

While recognising that the "facts of political life" make agricultural trade highly sensitive, Mr Rifkind will maintain that farm subsidies are under pressure on both sides of the Atlantic. The EU will be forced to reform its common agricultural policy because of EU enlargement and world trade talks due in 1999, while farm subsidies in the US are vulnerable to budgetary pressures.

In practical terms, Mr Rifkind will deplore high transatlantic tariffs in areas such as footwear, clothing and trucks, and stress the need to involve Canada and Mexico in the transatlantic relationship.

Internet

Continued from Page 1

and railing against "unhealthy tendencies" in society.

China's propaganda chiefs have made no attempt to hide their concern about opportunities provided by international computer networks for the widespread dissemination of information. These networks are seen as a direct threat to state control of media, which has been a core policy of communist rule.

"Neither organisations nor individuals are allowed to engage in activities at the expense of state security and secrets," Xinhua reported. "They are also forbidden from producing, retrieving, duplicating and spreading information that may hinder public order, and obscene and pornographic material."

Japan's 'flowers of the office' stemmed by staff cutbacks

By Emiko Terazono in Tokyo

Japan's "office ladies", whose role was often limited to menial tasks, including performing the office tea ceremony for male workers, may soon become an endangered species.

Mitsubishi Corporation has decided to stop hiring "OLs", as the women workers are known, and replace them with cheaper temporary staff from agencies.

Japanese companies have traditionally divided roles in the workplace by sex, placing male workers on a "career track" and on the lifetime payroll, and giving women lower-ranking and secretarial jobs.

Dubbed "flowers of the office", OLs have been a cheap source of labour for Japanese companies, since they often left after three or four years to get married. However, women in increasing numbers are choosing to marry later and staying on at their companies, raising costs.

At Mitsubishi, OLs have worked an average of 13 years, an increase of four years over the past decade. OLs account for 2,800 of Mitsubishi's 9,300 workers. The problem has been compounded by declining profit margins due to Japan's stagnant economy, and has prompted Mitsubishi's management to order a hiring freeze.

Other large companies face a similar predicament, and have reduced the hiring of OLs. Such hiring freezes have sharply reduced the number of jobs available for female graduates.

While employment opportunities have hit record lows for all graduates, women have fared far worse. According to the education ministry, by last October only 56.4 per cent of newly graduating college women had secured jobs as opposed to 74.4 per cent of male graduates.

Although Mitsubishi's decision has prompted an outcry from some feminists, the company says the move will eventually raise the status of women in the workplace since female graduates who are hired will be "career track" workers on equal terms with men.

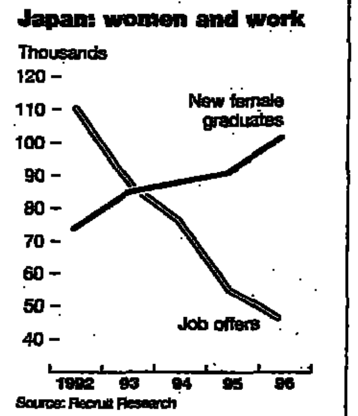
Mitsubishi, along with other leading companies, opened the career track to women in 1987, a year after an equal opportunities law was passed.

"The hiring of women will decline briefly, but we are trying to increase the number of women on the career track," Mitsubishi said. "Our president says he wants a third of the career track workers to be female."

However, along with other leading Japanese corporations, Mitsubishi has so far not had a very good record in putting women on the career track. Only 70 of its 6,500 career track workers are female.

Some of Mitsubishi's men say they will be sorry to see the OLs leave, but acknowledge it as a sign of the times. "It just means that the company is about to take on a tougher stance towards its employees, and there will be no exceptions," said one male worker.

Japan: women and work



Source: Recruit Research

THE LEX COLUMN

Grace under pressure

Baxter International's $3.8bn swoop on National Medical Care, the healthcare division of W.R. Grace, looks like a fine bit of opportunism. After a crisis-ridden 1995, Grace had already agreed to spin off NMC, America's biggest operator of kidney dialysis centres, to shareholders. But that plan has been stalled by a federal investigation into whether NMC has been overcharging government aid programmes Medicare and Medicaid.

The 10 per cent rise in Grace's shares suggests that Baxter is offering more than NMC would fetch in a flotation. But Baxter still expects only minimal earnings dilution because it should get substantial savings from merging NMC with its kidney dialysis equipment division. Following Baxter's own demerger of its low-margin distribution arm later this year, the combined business would be far and away the world leader in renal care, with half of its profits earned outside the US. In the home market, an extended product range should help to counter margin pressure from the big managed-care customers.

The principal risk for Baxter is that the investigation into NMC leads to a large fine. Baxter has said it will only stump up for liabilities of up to $100m, but it will be hard pushed to persuade an unfriendly Grace to accept responsibility for the rest.

There is also a chance that Germany's Fresenius or Gambro of Sweden, Baxter's international rivals, will launch a counter-bid. However, given their smaller size and weaker finances, the American predator should still have the edge.

US telecoms

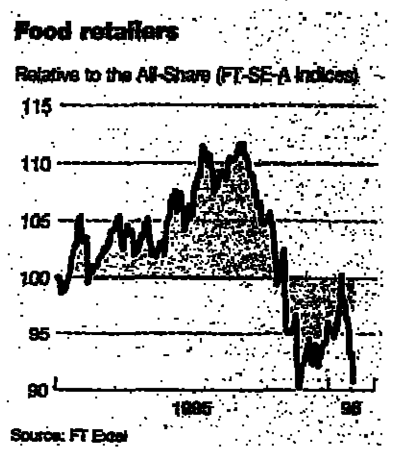
Who will be the biggest winners from new US telecoms legislation which pulls down the barriers preventing different types of operator from competing in each others' patches? Will it be the Baby Bell local phone companies, now free to enter the long-distance business and offer entertainment over their networks? Or will it be the long-distance and cable companies, now able to invade the Baby Bells' turf?

The answer is that most will probably be losers. The main effect of the legislation will be to intensify competition and squeeze margins. Telecoms groups may in future have three streams of income – local calls, long-distance calls and cable TV – but they will no longer have such large shares of those markets in which they currently operate. Vast sums of money will also need to be spent on marketing and on building networks capable of carrying both entertainment and telephone calls. This will undoubtedly spur greater use of new telecoms services such as the Internet, video telephony and interactive television. But it is unlikely that revenues from these will be sufficient to compensate for cut-throat competition.

Companies will try to avoid competition by forming joint ventures rather than building new capacity. Baby Bells may merge and there will be more deals like MCI's satellite link with News Corporation and Sprint's alliance with three cable groups. But such ventures will still be the prelude to more investment and will, at best, mitigate the problem of overcapacity rather than solve it.

Food retailers

Relative to the All-Share (FT-SE-A Indices)



Source: FT Extel

J. Sainsbury

J. Sainsbury's January Savers scheme is making way for a February Bonus offer; the fear among investors is that a spate of price-cutting could pave the way for March Mayhem among the UK supermarket chains. Sainsbury's move is largely a catch-up exercise: in 1995, Asda, Argyll's Safeway and Tesco prospered as Sainsbury languished. But Sainsbury's fight-back could signal the end of the cosy oligopoly which allowed its rivals to flourish despite the slow-down in new space caused by tougher planning rules.

If Sainsbury's tactics work, the others will come under pressure to react; if they respond by cutting prices, an already weakened Sainsbury would probably have to do more. A downward spiral is possible: UK food retailing margins are high by international standards and will be difficult to sustain in the long term. However, the sector has proved remarkably resistant. Banana prices, for example, have bounced back after cuts which many thought would be hard to reverse.

But profits are also under threat from a petrol price war triggered by Esso. Petrol still accounts for only around five per cent of the supermarkets' profits, and net margins are low, at around three per cent. The real victims of any price war will be the independent petrol retailers, who are likely to be squeezed out of the market altogether. This means that there is a strong incentive to hold prices and take the short-term pain of lost volume. This could still, however, translate into a profits shortfall of around £10m for the likes of Tesco and Sainsbury, as recent profits downgrades suggest.

All in all, margin pressure is making the sector's traditional defensive qualities look distinctly jaded. The sector has already lost its market rating and is currently trading at a discount of about five per cent. Until the current pressures ease, it is hard to justify a return to a market rating.

Redland

The "For sale" tag which has appeared above Redland's bricks business looks like a worthy attempt to find a way out of an uncomfortable impasse. The building materials company operates in a difficult sector and in low-growth markets. Profits are under pressure, making it difficult to invest in expanding the business. As last month's profits warning highlighted, Redland is heavily exposed to the dire German housing market; and Germany accounted for half of Redland's 1994 profits. The aim of expanding in faster-growing markets is a sound one, but the pay-back is likely to be slow.

Selling bricks is a sensible solution, but a buyer may be hard to find: Hanson and Ibstock already have a large market share. Redland is also considering injecting assets into Braas, its 51 per cent-owned German roof tiles business, as a means of releasing cash. But other than bricks, Redland has little to sell, since both roof tiles and aggregates are core businesses. And although interest cover looks comfortable, with weaker profits the company is right to avoid increasing debt any further. Redland is certainly strong enough to weather the current storm, but a profits rebound still looks some way off.

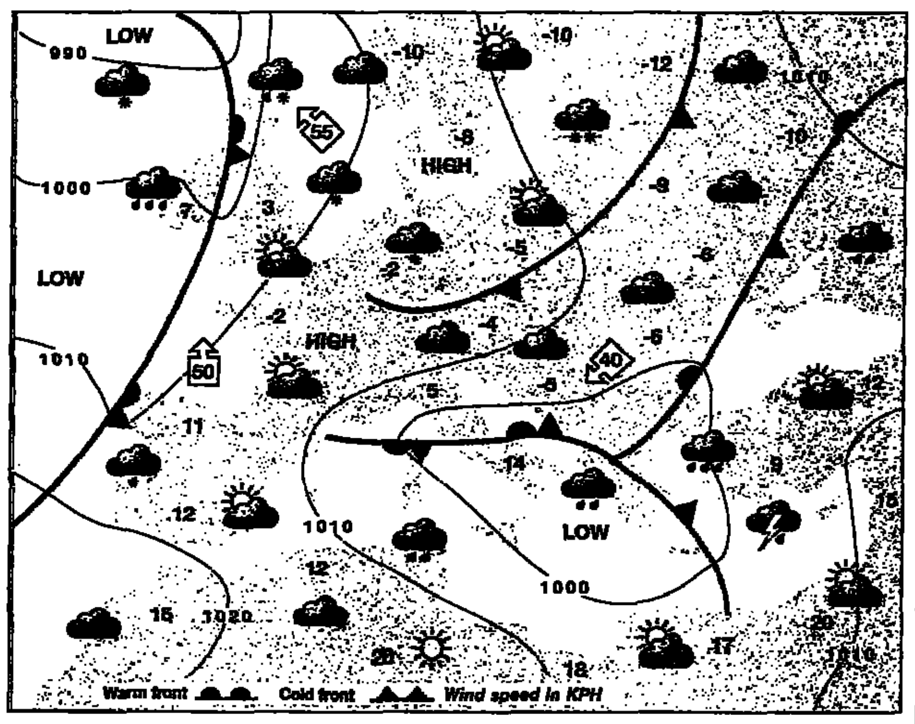
FT WEATHER GUIDE

Europe today

A frontal zone associated with an active low pressure system will produce cloud and rain from the western UK to north-west Spain and Portugal. The Scottish Highlands will have snow later. The southern Balkans, Greece and western Turkey will have showery rain and thunder. Italy will be cloudy with rain. The Benelux, Germany, northern Poland and the Baltic states will be cloudy with snow flurries. Sweden and south-eastern Norway will be clear but bitterly cold. The Mediterranean coast of Spain will be milder and sunny.

Five-day forecast

The UK will be rather unsettled with rain, sleet or snow. Active low pressure systems will move east over northern France causing unsettled conditions on the continent as well. Northern and eastern Europe will be wintry. The Benelux, Germany, the Alps and the northern Balkans will have occasional snow which will be locally heavy. France and northern Spain will have a lot of rain.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	fair	25
Accra	cloudy	31
Algiers	rain	13
Amsterdam	cloudy	0
Athens	shower	16
Atlanta	sun	7
B. Aires	fair	27
B.ham	cloudy	3
Bangkok	fair	30
Barcelona	fair	10
Beijing	sun	2
Belfast	rain	6
Belgrade	snow	-2
Berlin	fair	-4
Bermuda	shower	20
Bogota	fair	20
Bombay	sun	33
Brussels	fair	0
Budapest	fair	-5
C.hagen	fair	-4
Cairo	fair	20
Cape Town	sun	31
Caracas	cloudy	29
Cardiff	rain	6
Casablanca	shower	16
Chicago	fair	-4
Cologne	fair	0
Dakar	fair	24
Dallas	sun	15
Delhi	sun	25
Dubai	fair	25
Dublin	rain	7
Dubrovnik	shower	12
Edinburgh	cloudy	3
Faro	cloudy	16
Frankfurt	fair	0
Geneva	snow	0
Gibraltar	fair	15
Glasgow	rain	4
Hamburg	snow	-5
Helsinki	cloudy	-12
Hong Kong	fair	19
Honolulu	fair	27
Istanbul	rain	11
Jakarta	cloudy	30
Jersey	fair	7
Karachi	sun	30
Kuwait	fair	17
L. Angeles	shower	19
Las Palmas	fair	21
Lima	sun	28
Lisbon	rain	13
London	fair	4
Lux.bourg	fair	-2
Lyon	fair	0
Madeira	fair	18
Madrid	fair	9
Majorca	fair	11
Malta	shower	15
Manchester	cloudy	3
Manila	cloudy	30
Melbourne	shower	21
Mexico City	sun	21
Miami	sun	18
Milan	cloudy	6
Montreal	snow	-9
Moscow	cloudy	-12
Munich	snow	-3
Nairobi	fair	28
Naples	rain	12
Nassau	shower	21
New York	sun	-4
Nice	fair	10
Nicosia	fair	15
Oslo	sun	-7
Paris	fair	1
Perth	fair	32
Prague	cloudy	-5
Rangoon	fair	32
Reykjavik	snow	-1
Rio	shower	28
Rome	cloudy	12
S. Frsco	shower	16
Seoul	fair	-1
Singapore	shower	28
Stockholm	fair	-7
Strasbourg	cloudy	-1
Sydney	shower	26
Tangier	shower	15
Tel Aviv	fair	18
Tokyo	shower	8
Toronto	snow	-8
Vancouver	rain	9
Venice	shower	7
Vienna	cloudy	-5
Warsaw	cloudy	-7
Washington	sun	-3
Wellington	fair	21
Winnipeg	fair	-15
Zurich	fair	-2

هكذا من الأصل